The Theory of the

COST-PRICE SYSTEM

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COST-PRICE SYSTEM

By

Arnold J. W. Keppel

WITH AN INTRODUCTION BY

J. A. Hobson

"Of wretched mortals, lo!
the soul is gain."
—Hesiod

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TO MY PARENTS

I

DEDICATE THIS BOOK
AS A MEAGRE EXAMPLE
OF MY INDUSTRY

INTRODUCTION

The last few years have been prolific in books and pamphlets dealing with the price-system in its purely monetary aspects. The net result has been to impress many thoughtful minds with the conviction that a remedy for all, or nearly all, our economic troubles could be found in a skilful manipulation of money and credit. Thus attention has been drawn away from the deeper and more disturbing scrutiny into the foundations of the economic system needed for the comprehension of price phenomena. Most devotees of Economics, believing that their science is "well and truly laid" in a sound basis of law and principle, are scornful and impatient of outside thinkers, however well meaning, who claim to test afresh the validity of their accepted foundations. Yet it ought to be apparent that the conditions under which economic studies have grown into a "science" make such thorough overhauling from time to time an intellectual and moral necessity. For Economics, as an instrument of thought, has suffered from two awkward disadvantages. It has been compelled to draw its terminology and primary concepts from the loose language and thought of the market and the workshop, so that most of its common terms, such as wealth, value, cost, capital, profit, rent, are shifty and obscure. Again, the material handled, the economic processes, are so charged with conflicting interests and passions as to make it very difficult to study in the "dry light" which science desiderates. Moreover, the processes themselves shift so

rapidly that the most accurate analysis of one age loses much of its virtue in the next.

Fresh thinking is, therefore, continually required, and the more fruitful thinking is commonly done by those not immersed in business life. There, as elsewhere, the skilled spectator sees most of the game. For business is the largest section of the game of life, and its science is a programme of its rules. Now not all business men and not all consumers have been satisfied with the rules of the game. The injustice, inhumanity, and irrationality of much that goes on in the economic world have often been denounced and exposed, sometimes with a violence that has defeated its end. But the general body, alike of business men and economists, have combined to regard the system as substantially sound, and conformable to good morals so far as human nature and the circumstances of the game permit. There are deficiencies that can be remedied, but no fundamental changes are required!

Mr. Keppel's original analysis of the economic process is a powerful corrective of this complacency. No writer in recent times has brought a more compact and relentless logic, or more audacity and independence of view, to the task he here undertakes. It takes courage to tap once more the old familiar Crusoe economy, from which Mr. Keppel takes his start. But he completely justifies this method of approach. For Crusoe is himself an integral economic system; hunter, farmer, fisher, carpenter, tailor, etc., his multiple personality divides itself in labour, and satisfies its several needs by planned and accurate adjustments of time and energy which express *in petto* almost all the essential processes of organized industrial society. Only in one essential does

the Crusoe economy differ from an economy of dissociated personalities. There is no external process of exchange for distribution of the product. But there are several other important economic terms and concepts which do not emerge at the Crusoe level, such as rent, interest, profits. For all these arise from taking advantage of natural or contrived scarcities in land, tools, or other factors of production, and Crusoe has no temptation to extract gains from scarcities.

If a completely successful socialist community could be established and maintained, it would be simply a large-scale multiple Crusoe. Nobody would take rent because he tilled a better piece of land than his neighbour. No interest would be necessary, for the enlarged or improved plant and other capital would be got by setting enough labour to make it for the common use. If goods were sold it would be at prices which covered expenses of production and distribution, with no addition for profit.

Now Mr. Keppel does not profess to plan a complete socialist society along these lines. What he urges here is a reconstruction of the economic system based upon the exchange of all goods and services at cost-price. The value of his work depends upon the validity of his interpretation of "cost," and the feasibility of running by co-operative consent an economic system in which prices should incorporate no element of rent, interest, and profit.

Mr. Keppel does not rush his fences or evade them. He takes them in his logical stride. Though his reasoning is not involved, it is close, and demands concentration in his readers. It is often as bare and stark as anything in Ricardo or Jevons, and he is dealing with the sort of

problem they essayed to solve. It would be absurd here to attempt to summarize the course of his argument. It must suffice to say that his constructive work begins, as it should, with the fundamental distinction between that portion of the product required to provide the maintenance of labour and the "surplus" which should pass in due proportion into capital, or "costs of growth," and into "costs of improvement in the standard of living." If the arrangements for production and for marketing were such as properly to apply the surplus, all would go well. But if, owing to the abuse of bargaining power possessed by strongly entrenched business interests, artificial scarcities can be contrived so as to sell goods above their cost-price, the surplus is diverted from its right uses and passes as profits into hands that have no "right" to it, and therefore cannot put it to its best use, either for productive purposes or for consumption. A rightly ordered society would secrete capital as Crusoe did, putting it to such purposes as would keep it fully productive. There would be no idle capital or unemployed labour, and the standard of living would be secure for all upon a level that would satisfy all human needs, not for a small section but for whole populations.

Mr. Keppel argues that such reforms can be achieved without any hard and fast bureaucratic government, though government, in the sense of organized co-operation of the beneficiaries, is, of course, essential. Some readers who accept his analysis of the iniquity and waste of the current system may boggle at his attributing to all sorts and conditions of men the good will and reasonability required for so fruitful and effective a co-operation. But if, as appears to be the case, the era of competition is already giving place to an era of

combination, which threatens to take away from the consuming public the costly safeguards for cheapness and efficiency which the older economists claimed for competition, the necessity of new social controls becomes apparent. Such controls to be effective undoubtedly make calls upon the sense of social service which to many seem excessive. But have we a right to assume that human nature is so static, in composition and play of motives, that it must fail to operate new economic institutions that are manifestly in closer accord with justice and humanity than the obsolescent institutions, improvised so hastily to meet the requirements of a transition period of competitive capitalism, and already proved by experience to be no longer satisfactory in their working? If the scramble for personal gain has in the past appeared as an enlightened selfishness justified by the social fruits it bore, this appearance is no longer maintained. Those who accept the rigorous exposure of the moral and practical vices of a profit-seeking economy, which Mr. Keppel presents, will surely pause before accepting the conclusion that a saner form of economic government than the existing is impossible because human nature is not good enough or wise enough to seek the way of economic salvation.

J. A. HOBSON

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INSPIRATION

"*Nor, with all his eagerness for practical improvement, did he disdain theoretical inquiry. He could not, it is true, endure the hard, unemotional attitude, which some economists seemed to him to have adopted. They appeared to talk of matters involving suffering, if not death, to human beings, as if they were only specimens of the correctness of a theory. They seemed to regard the enactment of human dramas, concerned with the joys and the sorrows of men, from the standpoint of cool, critical spectators. If a man was thrown out of employment by a freak of fashion, they spoke glibly of the mobility of labour. If a woman or child was overworked in a factory, they complacently argued that such a course of action would in the end injure the employer, and he would not continue to pursue it. But Toynbee's nature was intensely sympathetic. He knew and felt that men, women, and children had passions and feelings, sympathies and antipathies, and that they could not with advantage be discussed like bales of wool, to be carried hither and thither, wherever they could earn a penny more.*"—L. L. PRICE.

"*It is possible in this world to know the price of everything and the value of nothing.*"—DEAN INGE.

"*As a matter of fact, the different kinds of values, moral and other, are connected in all sorts of ways. For example, that which is the object of a moral valuation, say, sincerity, can be estimated from the point of view of an intellectual or artistic or economic interest. Conversely, that which is the object of a hedonistic or aesthetic or any other valuation, say, riches, art, learning, can be estimated also as a good of moral order. Hence arise complex problems of conciliation.*"—T. WHITTAKER.

"*Both the emotional imagination and the practical interest move in the region of values, and the rational treatment of value, and in particular the relation of value to reality, has always been a part of the philosophic problem.*"—L. T. HOBHOUSE.

The Theory of the COST-PRICE SYSTEM

CHAPTER I

THE ANALYSIS OF THE CRUSOE ECONOMY

THE importance of a thoroughgoing analysis of the Crusoe Economy, as a preliminary basis for the study of Economics, has, perhaps, been underrated by economists. It is evident that in a Crusoe Economy, which is that kind of system in which a man seeks to satisfy the whole of his wants by his own labour, we are freed from the contemplation of the theories of Exchange and Distribution, and have to deal only with the simple dynamics of Production and Consumption. An anomaly which immediately strikes one is that the process of Consumption comes first. For in every labour of Production there is a concomitant necessary expenditure of Wealth, i.e. a consumption of goods, which technically is completed before the Crusoe is able to reap the harvest of his labour. This expenditure of Wealth, or consumption of goods, is called the Cost of the Product, and this Cost of the Product is a first consideration in all scientific Economics. "Is it worth my while," says Crusoe to himself, "to consume this portion of food (or Wealth), in order that I may maintain myself during the time it will take me to erect a comfortable shelter for use during my sojourn upon this island?" The answer appears in

the affirmative, because Crusoe wishes to continue to live, and he must in any case, therefore, eat; and he may as well work at tasks, which will contribute to his comfort, as remain idle. If he is of a completely idle nature, he will very likely devote himself to those labours which are sufficient to provide him with food to maintain his life from day to day. But, if Crusoe had been lazy, Defoe would never have written his novel; and we are here little concerned with a Crusoe who is lazy.

On being cast upon his island, Crusoe's first thought is perhaps not towards satisfying his hunger. He may have had a decent meal upon the ship before he was cast away. It is not, therefore, necessary for us to involve the argument in an interminable regress of speculation as to whether "the hen or the egg came first," or as to whether there was a consumption of Wealth before any Wealth had been produced. We see Crusoe upon his island already possessing the power to labour, and we may assume that the "cost" of his first product has been the quantity of the food he has consumed during his last meal upon the ship.

Now Crusoe finds several articles of value as well as various pieces of wreckage that have been cast up from the wreck by the sea. He does not have to consider in the very slightest degree the original cost of these products. He has to pay nothing for them. All he has to consider is the cost to himself, at the present moment, of turning these articles to his own use and advantage. Thus there may be a heavy bulkhead, which he may utilize in the construction of his shelter, if he can succeed in dragging it the half-mile or so to the site he has chosen. He estimates that it will take him three days to drag this bulkhead the distance, and perhaps another two days to

erect it in position. It will make the side of his house. The only possible cost, therefore, of the side of his house is the maintenance of his labour during the time that it takes him to complete the operation.

We have not as yet imagined him as employing tools of any description, although we may now suppose him to have discovered an axe, and to have used this axe to cut away cordage and so forth, in order to free the bulkhead from the surrounding mass of wreckage. The original cost of the axe is nothing to him, and clearly the maintenance of his own labour during the momentary period of time it took him to possess himself of it—we may imagine him picking it up off the sand—is infinitesimal, or negligible. This axe comes to him with no more demand for an antecedent consumption of Wealth than a handful of shellfish or a coco-nut that he finds at the base of a palm. What is not infinitesimal and not negligible is the rate of the maintenance of his labour *per diem*. He may live on shellfish, or on inverted turtles; he may find bananas as well as coco-nuts; he may employ tools of various descriptions. The cost of the product of his labour is at the rate *per diem* (*per mensem*, *per annum*, if you like) that he consumes food and that he causes a wear and tear in his clothes and in the tools that he uses, and that any such shelter that he may have erected suffers from the weather and gets into a condition of disrepair. In the original instance, then, we see that *the cost of the product is the maintenance of the labour*, and this works out to that standard of living of which for the moment he is capable. This point, that the cost of the product is the maintenance of the labour, is axiomatic in Economic Science. There is never a real cost in the price of a product which cannot

be reduced to the necessary maintenance of some labour. Conversely, no part of the price of a product is a real cost, or a necessary component of the price, unless it is referable to the maintenance of some labour. The truth of this will appear as we proceed.

But it will be also necessary for Crusoe from time to time to devote labour to maintaining his house and tools in repair. He may have to cut logs of teak to repair the side of his house, and it is doubtful if his axe will survive this ordeal. Thus there comes a time when he must make himself a new axe, and we shall, for our own purposes, suppose him capable of this. The point is, that the maintenance of his tools and shelter in a proper state of repair also works out at the maintenance of his labour over that period which it is necessary he shall devote to these tasks. The costs of maintenance, in other words, are of the same kind as the costs of production; if the analysis is carried far enough back the cost of the product, and costs of maintenance, always work out at the maintenance of the labour.

If Crusoe found himself incapable of making a new axe, that part of his labour which consisted in chopping wood would be found impossible to maintain; with the result that certain tasks cannot be accomplished by him, and this can only result in a diminution of his standard of living, and an alteration in the general cost of the product of his labour.

We become conscious from this state of affairs that different kinds of labour require different orders of maintenance. Where tools are employed, it is not only necessary to "feed" the labour with food, but to "feed" it also with tools. In some kinds of labour, it is very necessary to "feed" it with knowledge, education and

special kinds of training. The consumption of food differs nowise radically from the consumption of tools and roofs, of clothes and fuel, and of any other kind of "good." The cost of the whole product of labour is the maintenance of the labour, and it is not, and cannot be, anything else than this. Thus we come to see that it is not strictly the goods which "cost," but the labour which "costs." It is the labour which, in production, occasions the consumption of Wealth. If it were unnecessary to maintain the labour, the goods *would cost nothing*. Crusoe could have his house for nothing; he would consume no goods, no Wealth, in its production; and it would, therefore, cost him nothing. His house would be repaired at no cost, or would never need repair; his axe would never wear out; and he could labour from day to day without nourishment. Everything that he created by his labour would be a net gain upon his previously accumulated Wealth. We know, however, that this is not the case, that this does not happen, and we need not, therefore, enlarge further upon it. It is the labour which ultimately costs, and not the goods; it is the labour which occasions the consumption of Wealth; the cost of the product is the maintenance of the labour. This is the foundation-stone of all scientific Economics.

It is now necessary to examine the Crusoe Economy from a slightly different angle, and that is from the point of view of the Growth of Wealth. The understanding of the Growth of Wealth is of extreme importance, and its doctrine fundamental and axiomatic.

If the product of Crusoe's labour were never greater than the concomitant necessary outlay or "cost," it is clear that the Wealth of Crusoe could never increase. He would be much in the position as if he were incor-

rigibly lazy, and only did what was necessary to secure a few shellfish and a turtle or two; to make a new axe as occasion required; or to keep his house in repair. Only now it would be necessary for him to devote the whole of his time to achieve the same result, the maintenance of his primitive standard of living. We should never see his island becoming covered with a network of railways, or the shafts of mines being sunk, or factories going up, or a more elaborate residence being erected for his comfort. How, then, does the Wealth of Crusoe grow?

It is evident that (if we may assume the productivity of land) there is a productivity, also, of the labour of Crusoe. He is not only able to collect in a day that quantity of food which shall maintain him for a day, but he can collect much more. In one day he can, perhaps, collect enough food to last him a fortnight; thus, during the remainder of the fortnight, he is relieved from the necessity of this particular form of labour, and can turn his attention to the making of axes. If an axe lasts him a year, it does not necessarily take him a year to make an axe; he may, perhaps, make two axes in a month, and he will be relieved from the necessity of making axes for the space of two whole years. There is a productivity in his labour; and if there were not such a productivity in his labour he could never improve upon that original standard of living which was his.

And the same holds for the community in Crusoe; if there were no productivity in the labour of a community, that community could never emerge from the condition of its original savagery. It follows, that there is such a thing as the productivity of labour, a productivity which is in excess of the consumption of Wealth

necessary to the maintenance of the labour which produces. And the middle term in this syllogism is the common observation that Wealth tends normally to increase, and that communities do emerge, sometimes very rapidly, from the primitive state. But it is necessary very carefully to examine this natural increase of the product, which takes place at a rate greater than the concomitant necessary expenditure out of previously accumulated Wealth.

With every production of goods there is laid down or consumed a concomitant necessary outlay or cost out of previously accumulated Wealth. Before Crusoe goes off for a month into the forest to cut lumber, it is necessary for him to lay down the cost of his expedition, both in food and axes. It is not possible in a primitive economy, nor, indeed, in any other economy, to pay for the product of labour out of the product itself. Whatever may be the appearance that this can be done, it cannot be so, for, though a labourer may wait a month for his wages, he cannot wait a month for his food, and he cannot wait for his axe until he has finished felling the timber. Thus the cost of the product is always, properly speaking, paid out of previously accumulated Wealth, and this must be so, whatever the appearance to the contrary.

But in this product the labourer always expects to get back at least the equivalent of that Wealth he has laid down as its cost, and, if he knew he were not going to get this back, he would think twice before laying it down, and devote his labour to something else. If he never got back the equivalent in Wealth of what he laid down, it is clear that he must become poorer by successive labours, and be eventually unable to maintain

himself alive. Thus he gets back normally in the product at least the equivalent of what he lays down in Wealth. This must be the minimum condition for a sound economy.

The difficulty here appears, of how we are going to measure this. It will be said, "If Crusoe lays down a barrel of oysters and an axe and gets in return a thousand feet of pitch-pine, how are you going to say that he has got back the equivalent of what has been laid down?" In answer to this apparent poser I say, "So long as Crusoe's standard of living shows no visible signs of deterioration, we are in a position *to assert* that he gets back *at least* the equivalent of what he has laid down." I do not say that in a Crusoe Economy this is measurable, for we are denied the use and facility of money.

If this were not the case, his standard of living must begin to deteriorate; and Crusoe, being a sensible sort of fellow, would give up purchasing a thousand feet of pitch-pine at the cost of an axe and a barrel of oysters. He would direct his labours in such a manner that his standard of living either actually improved (in which case he could say that the return was greater than the cost), or remained at least on the old level which was customary with him. But if all his efforts were fruitless, and his standard of living showed a visible deterioration, then we should be in a position *to assert* that the return upon his labour was manifestly less than the outlay or cost necessary to secure it.

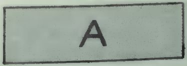
There does not now appear to me to be any difficulty in the way of accepting the proposition, that the return upon labour is, in general, not only equal to but in excess of the concomitant necessary outlay or cost. If this is the case in the Crusoe Economy, how much more so

will it be the case in the Division of Labour? Whether in a Crusoe Economy, therefore, or in an Economy of the Division of Labour, we shall lay it down as fundamental to the science, that the return upon labour normally shows a natural growth or excess over the outlay or cost; and this growth or excess is to be called the Surplus.

It will not be until we come to discuss the Economy of the Division of Labour (that is, an Economy in which the factor of *money* and the problems of Exchange and Distribution are present), that we shall inquire thoroughly as to whether this rule, of there being a Surplus, holds good over the whole field of labour, or if, whilst in some labours there is a mere equality of return, there is in others an excess or deficit in the return; to what extent this is the fault or the fortune of the individual; and to what extent the fact of a general interchange of goods throughout the market may mitigate and correct for the individual the untoward incidence of the inequalities of such returns.

On the assumption that the return upon the whole product of labour is greater than the concomitant necessary outlay or cost, we shall now proceed to draw some simple diagrams, chiefly for mnemonic purposes, and to show some difficulties that arise out of these.

Let A be the cost which is consumed in the production of a return upon labour which is in excess of A. A is shaded to remind us that it has been *consumed*.



And let B be the excess of the return over the original outlay. It follows that A (unshaded) must reappear in the return in order to make up the whole of the return, which is A *plus* B.

We shall be right in saying, that the whole return (A *plus* B) has been *earned*, for it has evidently been earned by the labour of which A (consumed) was the necessary maintenance or cost.

The original A was consumed, but we get it back as part of the return; the second part, B, being a natural growth or earned increment. Mr. J. A. Hobson has termed this natural increment the Surplus; and I have adopted this, and propose as much as possible to follow his nomenclature and terminology. I, however, insist upon having this Surplus absolutely distinguished from a term which must come to be used freely in our discussion of the Money Economy of the Division of Labour, namely, from the term "Profit," which I invest with inverted commas (for reasons which I hope will later become quite clear), and which I reserve here expressly, in accordance with very wide and customary usage, to denote "a difference, advantageous to the vendor, between the Cost-price and the Sale-price of goods." (My inverted commas.)

A Surplus is not the same as a "Profit."

In a Crusoe Economy we have no occasion for Exchange, or barter, or for the use of money. Crusoe

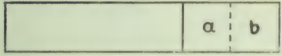
does not sell his goods, but consumes them himself. He cannot, therefore, know what a "Profit" is; but he can know a Surplus when he sees one. Crusoe may be said, with truth, to obtain all his goods at "cost-price." He need never pay more for them than what they cost to produce. Strictly speaking, however, we have as yet no cognizance of the meaning of a "cost-price," which is a term very difficult to introduce intelligibly and with a logical sanction into the discussion of a Crusoe Economy. It will, notwithstanding, be possible to indicate sufficiently closely the fact that there *is* a difference between a Surplus and a "Profit," by pointing out that, in a Money Economy, whenever the whole return (A *plus* B) is sold at "Cost-price," the Surplus evidently passes in exchange at this price, but the "Profit" is extinguished. When goods are sold at their cost-price, there is *no* "Profit." Consequently, a "Profit" cannot be the same thing as a Surplus. Failure to appreciate this point has led to fearful aberration in economic theory.

If I sell goods (A *plus* B), which have shown a return greater than their concomitant necessary outlay or cost (A), at their cost-price, there is no "Profit"; and it is necessary for me to charge *more* than their cost-price, if there is to be a "Profit." This I do, whenever possible, by withholding the sale of the goods at their cost-price. We shall examine the results of such an overcharge.

We have thus drawn provisionally the distinction between the real Surplus and the artificial overcharge or "Profit." We must now return to our diagram (A *plus* B), in order to investigate the nature of the Surplus (B).

(A), as we know, is the return of the outlay or cost which was consumed. This—or an equivalent quantity

of Wealth—will be consumed again, as Costs, in the next period of production. Even were there never a Surplus, the return of (A) would be sufficient to maintain a yearly production on the same scale. (B) is what Crusoe looks to for any increase or improvement (*a*) in his productive powers, (*b*) in the level of his standard of living; and we shall divide (B) up accordingly into two compartments, known as the (*a*) and (*b*) compartments of the Surplus. There will be other compartments besides these, chiefly in (A), but they will not be difficult to remember.



There is at any time a natural and appropriate *ratio* between the proportions into which Crusoe sees fit to divide (B) up, and the sizes of the two compartments will vary (even to the total extinction of one or other), according as Crusoe desires to expand his "business," or to increase the standard of his living. Mr. J. A. Hobson has, therefore, labelled these two the Productive and Unproductive Surpluses, the first of which (*a*) is called by him, and I think very happily so, "costs of growth," but the second of which (*b*) he calls "unearned increments" (*Industrial System*, p. 80). We have here, I surmise, some evidence of the reigning confusion between the terms Surplus and "Profit," of which we have spoken above. For, if one of the compartments is *earned*, then so must the other be, seeing that Crusoe can apply the whole of both compartments, if he so wish, to his "costs of growth," and these latter are not said by Mr. Hobson

to be "unearned." I have taken the liberty, therefore, of renaming the (*b*) compartment "costs of improvement in the standard of living"; and Mr. Hobson has professed himself satisfied with this. Both kinds of Surplus are *earned* in virtue of the labour which has gone to their production. They are a real return upon this labour, to which they are directly due; whereas the "Profit" is not. The "Profit" is due, not to labour, but to a state of the market. The "Profit" (although the reward of the labour of the middleman or merchant ordinarily comes out of it) is, technically speaking, *unearned*, just because it purports to be a difference between the sale-price and the cost-price of goods, and thus can neither have been purchased by labour nor by the consumption of any costs. The maintenance of the merchant is on all hands admitted to be admissible as part of the true cost-price of goods. How, then, does he come to be rewarded out of a sum which lies outside what figures as the true cost-price of the goods? The merchant, in virtue of his labour, earns both his compartments in the Surplus (and the community should see that he gets them); but he never earns his "Profit," because the "Profit" is *essentially unearned*, inasmuch as it does not even allege itself to lie within the scope of the costs, or of the cost-prices of goods. In fact, it expressly stipulates itself as a difference in the price additional to the cost-price of the goods. Thus it is certain that, whatever form the remuneration of the middleman or merchant may take, it cannot legitimately take the form of a "Profit." It may take the form of a Surplus, and this is the legitimate reward of labour of whatever kind. But a "Profit" is inadmissible as the reward of any labour, because it cannot truthfully represent itself as earned by any labour.

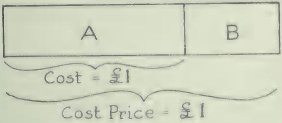
With the progressive expansion in Crusoe's "business" and standard of living, these "costs of growth" and "costs of improvement in the standard of living" cannot remain (B) costs, but must come to establish themselves as normal (A) costs, that is, as normal maintenance costs, which in any production of goods are the concomitant necessary outlay, or cost, of future products. It is rather important to notice that Crusoe gets accustomed to his improved standard of living, which becomes henceforth basic for him, so that it is only given up with reluctance and discomfort, and under the spur of necessity or compulsion.

As to the terms Productive and Unproductive, which have been applied to the two compartments of the Surplus, I feel I cannot quite allow these to pass without some few words of comment. The (*a*), or "costs of growth," are evidently the counterpart of goods which are used and consumed in the extension and growth of the activities of Crusoe. They are that particular portion of what are commonly and erroneously called his "savings," which are put as new "Capital" into his "business." In point of fact they are not saved at all, but are consumed;—(hoarding is the only possible true saving)—though, inasmuch as he aims to secure a return not only equal to but in excess of this new outlay, by means of which he continuously recoups himself for these expenditures, he may, with greater apparent justice, be said to save this portion of his income, than it can be said in the case of that second portion of his income (*b*) which he applies to the improvement of his standard of living. This second portion (*b*), it appears, is wholly consumed by Crusoe. But is this truly the case? Granted that he gives himself up to drunkenness, gluttony and senseless waste, it is the case. For, if we disputed this, we should engulf ourselves in a discussion as to whether drunkenness and gluttony can be held to produce any kind of "good"; and thence we should flounder into the old problem of Good and Evil. We must give this a miss in balk. But if Crusoe devotes a great part of this (*b*) compartment to personal labours and recreations in art, as in music, literature, sculpture or painting; or, perhaps, to sport and games (consuming these extra resources in the maintenance of his labours in these directions), are we to judge that labour of this kind—recreative labour—never yields a return equal to or in excess of what is laid out to produce it? Unless we come to the conclusion that it never does, must we not characterize both (*a*) and (*b*) as *productive* surpluses? We must surely lay down here, that the expenditure of all Wealth, the consumption of all "goods"—consequently the exertion of all labour—is *productive* (whether of good or evil); and that all real increments in Wealth are *earned*, by labour.

Further (and this is difficult and long, and the beginning of our Odyssey), that, wherever the whole return upon labour is sold at its cost-price (as frequently occurs in the Division of Labour through the force of competition) an earned Surplus passes from the Vendor into the possession of a Purchaser (who himself, also, is presumed to have laboured, and to have parted with his Surplus to another by sale); but that the original Vendor, now turning Purchaser, and applying the price he has received to a purchase of goods, receives back again now, vicariously, from some other Vendor, the equivalent of that Surplus upon his own labour, whilom with which he parted. Thus, though no one takes a "Profit," no one goes short

of a Surplus, with its (*a*) and (*b*) compartments; each receives the natural earned increments of those with whom his "business" leads him to trade. Such is the complexity of exchange. "Profit"-taking interferes with the delicate equity of this mechanism, by preventing the proper transference of Surpluses. The rule which we substitute for "Profit"-taking is that of selling all goods on the market at their cost-price; i.e. the Cost-price Rule. Into the manner of its operation we shall have occasion later to inquire.

Now it is fairly evident, that, whereas the diagram



(A *plus* B) is sufficient as an expression of the Growth of Wealth *in terms of goods* (and therefore sufficient for the illustration of Crusoe Economics); it is not sufficient as the expression of what takes place in a Money Economy, in which we have the factors of money and Exchange, and the consequent problem of the ultimate Distribution of the product by Exchange. For though we have been able diagrammatically to represent the whole return (A *plus* B) as greater than the outlay of goods (A) which were consumed in its production, there will be, in the terms of a Money Economy, no such sensible difference. For, in a Money Economy, the cost-price of goods (that

is, of the whole return) works out at the same figure as the cost.

If the cost, in terms of money, has been £1, then the cost-price of the return is £1. That is to say, the magnitude of these discloses no difference such as we discovered between the outlay and the return.

Nevertheless, the whole of the Surplus (indeed, the whole of A *plus* B) passes at this price; and so the purchaser receives the natural increment or Surplus, when he is able to purchase goods at cost-price; but he does not receive it, when the vendor charges him a "Profit," and he has to pay more than the cost-price of the goods. It is then withheld from him, *because he is made to give back its equivalent*.

Thus *this* curious state of affairs comes about in a Money Economy, where a "Profit" system prevails, that a man may not only buy from his neighbour the increments or Surplus in his neighbour's Wealth if he buy his neighbour's goods at cost-price; but he may, in return, withhold from his neighbour the corresponding increments or Surplus upon his own labour, if he can charge more to his neighbour than the cost-price of the goods. In a "Profit" system he will do this whenever he can. Thus he must retain two (B) Surpluses in his hands, the vicarious Surplus, and his own *which comes back to him in the form of a "Profit."*

This is the origin of the maldistribution of Wealth, which is the basis of poverty, of "ineffective demand," and of industrial discontent at the present day. The maldistribution arises directly as the result of uncritical reliance upon a "law," supposed fundamental and immutable in Economics, namely, that of the Equilibrium of Supply and Demand. It is supposed that there is no

other means of arriving at a fixation of market prices, except by means of the operation of the "law" of Supply and Demand. How little this can really be true is apparent, when we reflect, that nothing in Heaven or in Earth need prevent the sale of goods on the market at cost-price. There is no immutable law of Supply and Demand.

It is unfortunate that economists have been so little critical of this central position, upon which the bulk of classical Political Economy has complacently rested, this in turn becoming the substructure upon which the earnest labours of Jevons and Marshall have built up the huge edifice of the Marginal Theory—an elephant standing on a tortoise, and the tortoise standing on nothing. The task of criticizing the architectural defects of this Memorial in Economics is the more distasteful, since it is impossible to read a dozen pages of Dr. Marshall's principal work without becoming alive to the spirit of sympathy and humanity which breathes from every page.

The truth is, this "law" is nothing other than an example of *laissez-faire* in its most insidious and dangerous form, for it purports to be fundamental in the science, *and is not*. It is like a "law" of houses burning down—if you refuse to summon the fire brigade. What it does, is firstly to allow, and from this to justify, the contrivance of artificial scarcities in Supply, by means of the withholding of goods, wherever possible, from sale at their cost-price. The opportunities for this are readily afforded in the system with which we are all so familiar. "Marginalism" merely reduces this absurdity to a fine art, surrounding the imposture with a mathematical incandescence, dazzling

to the general public, but also blinding to the majority of economists.

This withholding of goods from sale at their Cost-price is the general basis of the "Profit" System; and, since everyone in a "Profit" System is equally implicated, whether he make a fortune or die a pauper, the blood of each is strictly upon his own head. What is necessary is the changing from a "Profit" to a "Cost-price" basis as the method for the fixation of market prices. No economist, who values his science, and who has come to understand the vital difference between a Surplus and a "Profit," can afford to retain the fallacious ground of his science. Under the cloak of this bogus "law" Wealth has been distributed with inequality, and in remarkably small quantities, from the earliest times until the present day; and will continue to be so distributed, so long as a "profiteer" is enabled to pocket his neighbour's Surplus with every appearance of superior business acumen, and with the added benediction of economists.

The grounds of our criticism will, of course, appear in better detail later on. What we are for the moment chiefly enabled to catch a glimpse of is the false reasoning which has seemed to justify "Profit." For, whereas in terms of a Crusoe Economy we are conscious of a growth in Wealth, symbolized by the Surplus; this, as we proceed to the consideration of a Money Economy, ceases to give sensible evidence of its existence, owing to the identity of the figure of the cost-price with the figure of the cost. *It appears to be necessary to add something to the cost-price in order to secure an increase in Wealth.* The fallacy of this is gradually emerging.

On the other hand, this disappearance of the Surplus

in the equivocacy of terms in the Money Economy has its perceptible corollary in the gradual cheapening in the price of successive products, as these come to be sold at their cost-price; and this works out, in a Cost-price System, *to a gradually increasing purchasing power of money.* We shall have occasion later to examine this cheapening process, and to notice how it is interfered with and frustrated by the operation of a "Profit" system, in which it is fallaciously thought necessary to charge more for goods than it has cost to produce them, in order, in the general interchange of goods which takes place in a Division of Labour, to secure the natural increments or Surplus in Wealth. If Crusoe were to waste his substance in paying more for the product of his labour than theoretically he need pay, his Economy would be the laughing-stock of Polynesia.

The lesson of the Crusoe Economy is that of the simple dynamics of Consumption and Production. In Production it is nowhere necessary that Wealth should be consumed, except in the maintenance of some necessary labour; or of some high standard of living, which is subsidiary and necessary to the maintenance of the better kinds of labour. For example, you cannot have a flourishing agricultural industry in the presence of an indigent agricultural population. Nor are indigent populations, whether in the country or in towns, whether at home or abroad, conducive to sound markets. It is seen, from the chapter which we are now bringing to a close, that the Cost of the Product, and therefore (by inference from the Crusoe to the Money Economy) the *Cost-price,* is sufficient to purchase for any individual those elements of growth which make up the Surplus, affording to each and all both an extension of "business" activity and an

improvement in the standard of living. These are bought at the unique and only cost of the maintenance of the labour which produces them.

From these circumstances we are enabled to judge, that the only justifiable price of the product upon the market is its cost-price.

CHAPTER II

THE PASSAGE FROM THE CRUSOE TO THE MONEY ECONOMY

It may be, that it has been thought an analysis of the Crusoe Economy is not strictly apposite to the conditions of the modern industrial State. We are, therefore, in accordance with an indefinite productive power, which we postulate in Crusoe, rapidly about to expand the conception of a Crusoe Economy until it comes, in the degree of its magnitude and complexity, to bear some proportion to the magnitude and complexity of the modern industrial State. When this has been done, we shall be in a position to break Crusoe up into a million fragments, and begin to watch the interchange of goods and services that goes on in a Money Economy or Division of Labour. It will be much better, however, if we are able to stage the scene, so that the Crusoe Economy is actually observed (as by the addition of Friday) to break up of its own accord, and to pass over into the Division of Labour; and we shall have recourse to an historical digression in order to produce this effect.

For our own purposes, then, we have postulated in Crusoe an indefinite capacity for labour. If we suppose him capable of laying down a few wooden rollers for the purpose of launching a wooden boat, we may also suppose him capable of constructing a slipway for the purpose of launching a battleship or trans-oceanic liner. We are going, then, to suppose that in the course of time Crusoe is enabled to cover his island with all necessary means of communication, such as railways, canals and roads; that he is able to sink mines, whence he can extract coal, iron and copper; that he has established all necessary industries for the production of raw materials; and that blast-furnaces and roller-mills, textile and other factories are in existence and working at full pressure. Here you have the industrial system in operation. But we must not go too fast.

It is at the same time important to realize to the full the point, that the industrial system does not exhaust the meaning of an Economic System. It is impossible, in economic theory, to deal with the industrial system separately and apart from the Economic System as a whole. To this fact a whole literature of taxation will bear witness, and we have, therefore, to bring into the field of our observation and under our most careful scrutiny, not only the "industrial system" together with the product of its labour, but the whole of that product which is produced by labour, the maintenance of which is paid for out of taxation. Nor is this all, for, in addition to these two, there is a kind of meta-economic category of labour, which, as we have seen, tends to be paid for, by a kind of voluntary taxation of self, out of the (*b*) compartment of the Surplus, and consists in the pursuit of such objects as those of sport and games, art and science (pure as opposed to applied), religion and philosophy. A Treasury official, a grenadier, or a judge needs food, clothing, shelter and comfort, just as much as a manufacturer, a railway porter, or a farmer; and so also, it may be added, does a musician, a bishop, or a professional cricketer. All these are drawn in subsequently into the theory of Distribution, and it

does not make for lucidity to pretend that they lie outside the field of our inquiry. All of these are producing *goods* of various kinds, and exchanging them in differing markets. The Industrial System is not, therefore, cut off in any way from the rest of the body politic, though it is, perhaps, the most obvious part of that body from an economic point of view. The reader must become familiar with the point of view, that the major problems in economics—those of Exchange and Distribution—cover a much wider field than is indicated by the limits of the Industrial System. The whole of society is implicated. The Economic is conterminous with the Political System.

We see, then, Crusoe devoting his labour to all necessary forms of the production of Wealth, or "goods"; and among these, as his island comes to resemble the civilized modern industrial State, we cannot afford to exclude such "goods" and such Wealth as are represented by security and defence, by law, order and proper governance, on the prior hand—in fact, the whole system of government; nor yet, on the later hand, those posterior fruits of civilization and industry which find their representation in the recreative arts generally. All of these are comprised within the labours of this Titan Crusoe; all of these are "goods," all of these are Wealth. First (if we may classify them roughly) comes Security; then Food, Implements and Comfort; then the Humanities. The Humanities cannot thrive where the stomach is empty, and the stomach cannot be full where marauders trample the harvest. Thus there is a certain necessary order in the growth of economic systems; and this order, within a little, must be observed.

If the modern industrial State may be taken as the

general case of the State, the individual, the Crusoe, is himself a particular and limiting case of the State. It may well be that the origin of a Crusoe Economy can be made to throw light upon the origins of the economic systems of modern industrial States. If Crusoe, upon his island, find himself surrounded by hordes of savages, his thoughts will first turn to his protection against these; that is, to the establishment of law, order and security within his island. It is found, then, that his economic system must depend upon and emerge from a prior "political" system, having as its first principle the maintenance of the security of the island and its denizen. In the same way, it may be said that the economic systems of great industrial States of the present day have all emerged slowly from the prior necessities of a political system designed for the preservation of law, order and security within the territory in question. Security was the first "good" produced by the labour of early communities. And this has always been, and still is, a paramount consideration in the economic systems of all nations. The cost of this particular product is defrayed out of taxation of the return upon labour, and is thus seen to be a prime concurrent real cost in the price of goods. It is evident that this payment must be made, whether there is a Surplus or not; it has, accordingly, to be marked as a (*t*) compartment (Taxation) in the unshaded equivalent (A) of the consumed cost. It is the most necessary of all payments (costs).

Thus we must contemplate Crusoe, in the first place, in his expanded Economy, establishing a vast system of internal government and external defence. And though it is true that the production of food, implements and comfort, as well, even, as of the humanities, will proceed concurrently with the establishment of the system of order and security; it is, nevertheless, also true that, in a great emergency, the development of the humanities will first be given up; and, in a time of great stress, corresponding to civil or international war, the production of food, implements and comfort will be reduced to a necessary minimum, and the whole force of the State will be applied to assuaging the threat to the security of the island and its economy. It is natural, in such common circumstances as these, that the emergence of an economic system is dependent first upon the maintenance of law, order and security; and we therefore see the virtual necessity, in primitive States, and in those surrounded by enemies, of an autocratic type of government; such, for example, as the *feudal*, in which there is a King at the head of the State, and great barons, who rule over, and maintain order in, outlying parts of the island.

Here it must be noticed that, in early times, all revenue whatever is, for prudential reasons, practically at the beck and call, whether of the monarch, or of the *tenentes in capite*, who have received the delegated authority of the King. It is only in the measure that security is attained, that there can be any free development of the economic system such as we have come to know of in our own day. Thus we vindicate the order of necessity which we have attributed to the economic system.

The consumption of Wealth yields, in Security, a

product *at least* equal to the value of what has been consumed. Otherwise, in accordance with the dynamics of consumption and production, the State must go under, because its standard of security is diminishing. William the Conqueror's insistence upon the establishment of the feudal system in England places him of right in the first rank, not only of soldiers and leaders, but of far-seeing statesmen—a place which has generally been conceded him by the most eminent historians.

The feudal system translates our conception of the Crusoe State into practical terms. The whole of the labour, by means of a concatenated system of homage, and therefore the whole of the revenues, belong by right of might and necessity to the monarch, and are administered by his delegated "tenants in chief," through the ramifications of a further system of sub-tenancies and sub-infeudation. Hence Domesday Book, and the eventual assertion of the kingly supremacy over the Church. The lowest order of labour, engaged in the tilling of the land, is bound to the soil, whence it maintains itself. This labour is, however, bound also to work for the lord, and the bulk of the produce of this labour finds its way into the lord's barn, whence issues in due course the maintenance of the labour of sundry men at arms. We hear, in the curious feudal terminology, of "knight's fee," that is, approximately, the revenues of a portion of land deemed sufficient to afford the appropriate maintenance for the military service (or labour) of a knight. So much of this necessary maintenance is furnished directly in kind, that we see more clearly than ever the fundamental truth, that the cost of the product is the maintenance of the labour. The seaports are supposed to furnish so many ships at need, and men to

man them. Even the King's table is furnished through various payments in kind. The Church has its own revenues. The judiciary receives its appropriate scale of maintenance. The whole of this system, being a necessary preliminary to all future production, is a necessary element of cost in the price of goods.

With the growth of security and of "the majesty of the law"; with the relaxation of military needs and the inevitable decline in the personal power of the King; the need for the rigid supervision of the administration of the whole revenue of the land declines in company with the rigid system of homage which ensured it. Homage is no longer exacted between King and lord, or between lord and knight. A kind of prescriptive tenancy in lands passes over into a virtual ownership of the ancestral demesne; although it nevertheless stands out in English law, that the land itself has never been considered as being precisely upon the same footing as private property. The interest in the land is "not strictly in the nature of property" (Stephen's *Commentaries on the Laws of England*, vol. i, p. 103). It is a "fundamental maxim of the law of England, that all land belonging to any subject is *holden of some superior, and either mediately or immediately of the Crown* (italics, *sic*) (p. 111); "for in this realm, according to Sir E. Coke, we have not *allodium*" (p. 112). And in England, "even the King, the supreme overlord, though he held of no one . . . was not seised of the Land itself" (p. 104). Whereas the "*allodialist*," on the Continent, in those places where the feudal system did not penetrate, "held of no one, but enjoyed his land as free and independent property" (p. 105). This he did by "folk-right" (*ibid.*).

This unexpected factor of the gradual decline and

break up of the feudal system and its mode of land tenure, lasting nevertheless over many centuries, has, in virtue of the sale and conveyance of estates and parcels of land through an irretrievable succession of private owners, practically amounted to a reassertion of the "allodial" *status* of the land, on the basis of the old "folk-right." The "folk-right," to all intents and purposes, has established itself again out of the mists of the forgotten past; and although there clearly exists at the present day an anomalous situation in law, there can be little doubt that, even in the legal view, the feudal system is as dead as Chaucer. Having furnished an indispensable basis in order and security, it has not survived the growth of personal freedom and the gradual evolution of the industrial State. The Crusoe State has broken up, but its original strength has not been lost, since it is received back again, with natural increase, in every return upon the labour which still maintains the strength of the law, and of parliament, and of the armed forces of the Crown. We must not forget, that the maintenance of this huge fabric represents a consumption of goods, a consumed cost, which is part of the concurrent cost of the product of industrial labour. We must now endeavour to adapt our thought to conditions in which there are found, in the island State, economically autonomous entities.

Let us proceed, then, with the new order of independent landlords (and leaving out the period of the Guilds in England), to the establishment of the basic industry of all in connexion with the, as we shall suppose, now fast developing manufacturing power of Britain. This is the agricultural industry, in which, for the sake of convenience and verisimilitude, we shall include fisheries,

forestry and the mining industries. These are *quasi*-agricultural industries producing raw materials. With imported raw materials we shall have to deal later.

We need spare but a moment to notice the various enclosures of the land, that is, of the "waste" (as it was called), which took place in greatest measure approximately between the years 1780-1847. In the then existing distribution of "Capital"—a distribution which was as much the result of the political constitution of society, as of the "profit" system as it then operated—the landlords themselves, and all those who, possessing "Capital," invested it in the land, were virtually the only people capable of developing the agricultural and mining industries at the rate that was called for in view of the recent invention of the steam-engine, the power-loom, and the spinning-jenny. Under the direction of these "Capitalists," the agriculture, the mining industries, the canal and railway systems, and the general manufacturing power of England proceeded at a pace which outdistanced, at that time, the rate of the industrial development of any other country in the world. It is improbable that the "Capital," then and there available, could have been utilized to better advantage by any other persons, or that the evils attendant upon so enormous and rapid an expansion could have been less in the hands of any others. It was, nevertheless, in this period that the problem of the distribution of the product first began to stir men's minds towards the serious study of Economics; and, within this period, while Adam Smith wrote the first English classic in Economics, *The Wealth of Nations*, Coke of Norfolk helped in the development of agriculture by introducing a sound system of the rotation of crops, and Lord Shaftesbury

identified himself with the cause of the factory workers. This was the great era of expansion, and undoubtedly it led to wider divisions in the general standard of living than had hitherto been known at all in England.

We have alluded to the productivity of Land, as well as to that of Labour. But a first thing to be insisted upon is that the productivity of land, unlike that of labour, *costs nothing*. It occasions the consumption of no Wealth. The natural productivity of land is as free of cost as the air we breathe. What *costs*, or occasions the consumption of Wealth, is the labour that puts and maintains the land in a state of productivity above the natural state. The productivity of agricultural land is artificial, in that the land must at least be first either cleared, or ploughed, or dug. Labour must be employed upon it, and according as little or no labour is employed upon it, so it is free of cost. It is the maintenance of the labour which occasions the consumption of Wealth. It is the same in the case of mines, forests and fisheries. Their productivity for human purposes requires the application of labour.

This point is highly important in view of Ricardo's claim, that "Rent is that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil." Let us examine this claim. Every farmer knows that the properties of the soil are easily susceptible of destruction. Floods and rain wash out the natural properties of the soil, and drainage carries them away. Every time a harvest is garnered, waggon-loads of its most vital properties are carried off, some of them never to return. The original powers of agricultural land are soon exhausted. These have all to be put back again by human labour, almost from year to year, if the fertility of the

land is to be maintained. If this fertility is to be increased, draining, subsoiling, liming must be resorted to according to circumstances; artificial as well as natural manures must be employed. Barns, stockyards and other buildings must be erected, the most up-to-date farming implements must be used. Is, then, "Rent" (for we must, indeed, invest this word also with inverted commas) a payment made for the use of the improved powers of the soil? No, a thousand times no. Agricultural "Rent" is not a payment which comes direct from the land to the landlord. "Rent" is a payment utterly dependent upon what is received by the farmer in the way of "Profit" when he sells the produce of the land upon the market above cost-price.

The explanation of "Rent" is quite clear and simple. "Rent" represents the landlord's share of a "Profit," which is created when the product of the farmer's labour is sold on the market above the cost-price of its production. In other words, it is all or part of a spoliated Surplus. When "Profits" decline, "Rents" also decline. Theoretically, they are both at zero, when goods habitually change hands on the market at cost-price (as in the case of the produce of "marginal" lands). We know very well, that if the landlord farms his own land, and is able to sell the goods he produces above their cost-price, he will have a "Profit"; but he rarely takes the trouble to divide up this amount into what *would* have been the farmer's "Profit," and what *would* have come to him as "Rent," if the land had been let. The whole of it is to him "Profit." Thus "Rent" comes out of "Profit." When goods are sold at their cost-price, there is neither "Profit" not "Rent." "Profit" and "Rent" are the divisions of the spoliated Surplus, which is

divided up between landlord and "profiteer." Neither of these imposts can substantiate itself as legitimate, for reasons which we have already given. Neither depends upon the labour of the farmer or of the landlord, but upon a state of the market. The "Profit" of the farmer, in the first instance, depends upon the state of the produce market, and how much of this goes to the landlord in "Rent" depends, in the second instance, on the state of the market in agricultural land.

What has been said applies to the "Rent" of all land. It does not matter if the land is mining, agricultural, residential, or in occupation for business purposes. In a "Profit" System there is no "Rent" that does not come out of "Profits." We do not describe as "Rent" that payment which represents the actual annual maintenance of premises in repair, or of agricultural land in a state of productivity. For this is a real cost, representing the maintenance of the labour thus employed. But "Rent," like "Profit," is not, and cannot represent itself to be, a real cost, or the reimbursement of a real cost.

It has been pretended that "Rent" arises as the result of the *natural* scarcity of land. It is said that the natural scarcity of land, for example in the City of London, causes "Rents" to be high. This is clearly a misapprehension, for land is of the same degree of natural scarcity over its whole surface. Land is not scarcer in the City of London than it is at Edmonton. There is the same quantity of it per square mile. The true explanation of "Rents" being high in the City of London is not the scarcity of land, but the expectation and realization of "Profit," and the consequent reaction upon the state of the market in land. Assuming we are in agreement that "Profit"-taking is illegitimate as involving the

spoliation of a Surplus, the means that will eliminate "Profit" will also succeed in eliminating "Rent."

Now "Profit" arises, not as the result of a *natural*, but as the result of an *artificial*, or *contrived* scarcity of the product of labour. A natural scarcity is a real scarcity, and must be reflected in the cost of the product, thus not admitting of a "Profit." But a contrived scarcity is not reflected in the cost, and therefore admits of the "Profit," which is a difference between the cost and the price, or, as we have previously expressed it, between the cost-price and the sale-price of goods.

It cannot be too strongly insisted, that the withholding of goods from sale on the market at their Cost-price constitutes, in itself, the wilful contrivance of a scarcity, this, in turn, leading to the spoliation of the Surplus, and to the maldistribution of Wealth.

At the bottom of this contention that the scarcity of land causes high "Rents," is the feeling that there must be a corresponding limitation, especially in agricultural land, of the possible produce. In this connexion, if we except cases of siege and blockade, it must be pointed out, that the scarcity-point in the supply of agricultural land has never yet been reached in the history of the world. In England it would be necessary for a blockade to preclude all possibility of the importation of goods, before the scarcity-point in agricultural land would be reached. What would then happen? Would the "Rents" of agricultural land go up? It would depend absolutely upon whether the produce was sold on the market at cost-price, or above the cost-price of its production. If there were no governmental regulation of the sale-price, famine prices would no doubt rule. "Rents" would certainly go up, by reason of the enormous "Profits"

being made by farmers. But if there were a rigorous "costing" of agricultural and allied produce, so that the whole agricultural product came to be sold on the market at cost-price, "Rents" of farm lands would not only not go up, but would cease to be paid at all. Thus, if we confine our attention to "Profit," we need not trouble ourselves very much about "Rent."

The mining industries, together with those of forestry and fisheries, need not detain us long. With all improvements to the land, or for that matter to the sea (as e.g. in harbours, methods of trawling, etc.), it is not the improvements which cost, but, technically, the maintenance of the labour which improves. These maintenances are clearly, in the long run, annual maintenances, and can conveniently come later to be expressed in terms of annual money payments. Buildings, as we have seen, cost nothing in themselves, either to erect or to maintain in repair. It is, technically, the labour which produces them, or which maintains them in repair, which *costs*, i.e. occasions the consumption of Wealth. And if materials or tools are necessary to this labour, then the cost of these is the maintenance of the labour which produces them. We do not pay wages to buildings, but to men. Even with animals, such as horses, it is the same thing; we do not pay horses wages; it is not their maintenance which costs, but the maintenance of those who tend them, and who by their labour provide such Wealth as animals consume. The anterior cost is the maintenance of the human labour which provides. In a human economy it is the human labour, technically, which costs, and which occasions the consumption of Wealth. There is no other real cost in the price of goods.

We are coming gradually to see that the real costs in whatever product of labour are the maintenances of labour, and nothing else. There is no other *necessary* payment. In considering the costs of this or that industrial enterprise, we need not bother with anything else than the maintenances, or, better still, the rates of maintenance of the "field" of labour that needs be employed. The real point at issue is the area of maintenance, or what we might call the "catchment basin" of the labour that contributes to the final product, whether it be a cathedral, or the Forth Bridge, or a cooking-range, or a pair of socks. What we have to consider is the total of labour involved, and the proper rates of its maintenance. This is matter for the later concentration of our attention.

For the present we come to realize, that the *first cost* in the price of manufactured products, after (*t*) has been paid, must be the maintenance of the labour which produces the raw materials. To (*t*) let us add (*r*) as a compartment in the unshaded cost (A). But this is a consideration, which immediately spreads the confines of our industrial system to the ends of the habitable globe; for a large part of imports consists of raw materials, and we are reminded that these have to be paid for by exports. Let us, then, earmark a further compartment (*e*) in the unshaded cost (A), for the purpose of paying for general importations of goods, including raw and half-manufactured kinds. The compartments of the unshaded cost (A) are so far (*t*) (*r*) (*e*); and those of the Surplus (*a*) (*b*).

To these first costs must be added, in the course of time, the cost of the maintenance of the labour in the successive processes of manufacture (*m*). Lastly, there must be added thereto the cost of the maintenance of those

engaged in the labour of marketing the product (*n*). The original diagram (A *plus* B) will now be as given here.

		A				B	
t	r	e	m	n	?	a	b

This diagram is valid only for the whole product of industrial labour.

The maintenance of the whole of this labour, if we are satisfied that it includes the whole, must theoretically be the cost of the whole product of industry. This cost, in the last analysis, must evidently consist—as rates of maintenance—in separate and definitely ascertainable amounts. There is so much labour engaged in agriculture and mining, so much in manufacture, so much in transport and marketing. And, as we have already seen, the product is going to yield a Surplus in excess of the cost, sufficient to supply (*a*) and (*b*) elements of business growth and improvement in the standard of living.

But from this enormous category of labour must be separated off, at all events at the present day, those merchant-middlemen and owners of the different factors in production (e.g. Land, Capital, Machinery, etc.), who are not content to state a definite cost, or rate, for the maintenance of their labour, or to share and share alike according as the general Surplus is a good or bad one; but, after the main cost of the product (i.e. in employed labour) has been totted up in terms of Supply and Demand, prefer to stand their chance of being able to tack on to the cost-price, *quâ* "Profits," imaginary rewards, to which, the more unexpectedly great these turn out to be, the more they seriously imagine and allege themselves to be entitled—not so much, be it

noted, on the score of their *labour* (though this reason is also advanced), but, as perhaps a stronger ground, on the score either of their superior *ability*, or of their *ownership*, as if these, *per se*, could be a cause of their rewards. The reward of these, being an unknown quantity, and, as the Germans say, *x-beliebig*, appears in our diagram in the form of a question mark.

The remedy for this state of affairs lies with the common sense of the consuming public. It is not ownership, or ability (as such), but *labour* (as such), which, in economic theory, earns a reward. The ownership of land, of capital, or of the means of production can avail nothing to secure rents to landlords, profit to middlemen, or interest to the owners of capital, if the public once insist (as for the sake of sanity it should) that goods shall come to be sold on the market at cost-price, that is, at their price in the maintenance of the *necessary* labour. The general merchant or storekeeper will then no longer be able, as at present, to take toll of the legitimately earned Surplus of every single customer who is so venturesome as to purchase goods at his counter.

In Economics we do not ask who owns the goods that are for sale, but what it has cost to produce them. Similarly, we do not ask how much "*ability*," but how much "*labour*," has been employed. The high rewards, in any case, are not due to ability, but to a state of the market which admits "profit."

A line of inquiry which seems to suggest itself as arising out of the previous considerations is as to what precisely are the effects of international "Profit"-taking. There seems no reason for continuing to provide with our eyes shut the material for foreign rent, interest and profit. But perhaps the boot is on the other leg.

It is clear that in this question we are dealing practically with the exchanges in bulk which take place between Crusoe Economies which have established commercial relationships between themselves. Crusoe we may suppose gradually to have established trading relations with the surrounding islands and mainland. It must be here remarked that different countries divide themselves up very markedly into (1) agricultural, producing for the most part raw materials; (2) manufacturing, or, again; (3) merchant States, with large carrying or *entrepôt* trade. Most States will partake of the character of one or more of these divisions. There does not seem to be any good reason to suppose that the general result will not be the same in the case of these States as we have already found it to be within the individual State. There will be a tendency towards the unequal distribution of the Surplus which arises as the result of international labours of production and exchange. Some parts of the world will be overdeveloped in relation to the mean; other parts underdeveloped. This can be neither altogether just nor good for trade. We shall have, however, to leave this for later consideration. We now pass to the analysis of the Money Economy and to the theory of Exchange.

CHAPTER III

THE ANALYSIS OF THE MONEY ECONOMY AND THE THEORY OF EXCHANGE

I

We have now to introduce the conception of money into our calculations, and to see how it works as a means of facilitating the exchange of goods, or, more properly speaking, of services. Thence we shall proceed to the examination of an Exchange; and finally we shall be in a position to consider the nature of Capital. The order of this inquiry is not altogether satisfactory, but I find it necessary to postpone the inquiry into Capital as long as possible, owing to the great quantity of considerations which properly precede it, and which, if omitted, would amount to a faulty statement of premisses. The great difficulty in Economics is getting all the pertinent considerations in their proper order.

Mr. J. A. Hobson, to the tenor of whose *Industrial System* and shorter *Science of Wealth* (Home University Library) I designedly keep, has shown in a very graphic and descriptive manner the forward stream of goods proceeding through all phases of production, manufacture and marketing from the raw state to the retail counter; and the reverse stream of money, receding in a contrary direction and paying for all processes backwards until the earliest service in the production of the raw material has been paid for.

Without seeking presumptuously to improve upon

the lucid picture Mr. Hobson has given us, we may perhaps be permitted to notice here that, simultaneously at all points in the processes, there are goods moving forwards and moneys moving backwards, so that the original producer of the raw material is not necessarily habitually inconvenienced by having to wait for his money until the ultimate customer at the retail counter has paid the sum which shall liquidate the existing debt over the whole range of raw production, manufacture and marketing. In point of fact, however, waits of this kind do ordinarily occur in business, and the necessity of meeting these has given rise to the system of Bills of Exchange, which are drawn either at sight, or at three or at six months' date, according as there is expectation or custom of payment being made when the bills fall due and are presented. The discounting of these bills by the drawer's bank, or by a Discount Bank, puts the drawer in possession of the desired funds.

The use that is made of these bills, especially in the settlement of "three-cornered," or of multi-cornered, accounts in international trade, is one of the most interesting and even fascinating of comparatively modern developments in international finance. Incidentally to our present purpose, it affords us a very useful introduction to the subject of Money. By means of bills of exchange as a method of cancelling out international trade debts it is found possible to put off until the final necessary moment the periodic, necessary and minimum shipment of gold which must take place sooner or later in order to liquidate the final irreducible quantity of debt resulting from the favourable or unfavourable balance of trade. In the last resort, with this shipment of gold, there is, properly speaking, neither a favourable nor

an unfavourable balance; for the shipment of gold, as a kind of "make-weight" to the exchange, has mediated an equilibrium, which was otherwise unattainable. An example can here be usefully given.

If Arcadia wants goods from Bœotia to a greater sterling amount than Bœotia wants from Arcadia, the larger quantity of exported goods comes from Bœotia. Arcadia cannot pay for the whole of these goods with the smaller quantity of its own goods, which it exports to Bœotia. Consequently, it has to make up weight with a quantity of goods which Bœotia will be willing to accept. Now gold, or sterling, is such a class of goods as Bœotia will accept. It would be unreasonable and useless to expect her to accept perishable goods as a make-weight, which, into the bargain, she evidently does not want. But she will not mind accepting gold as a make-weight, because, besides possessing a universally recognized value, it is also practically imperishable. The substance and the value are alike as nearly imperishable as can be attained. We come to see, therefore, that money, more or less, is a class of ordinary, acceptable goods, or Wealth, theoretically consumable, but practically not so, which comes to be used for the purpose of mediating exchanges, precisely on account of its property of imperishable value.

Some economists have added to the qualities of gold, that of its convenient bulk, or compass. But it is clear that a cubic foot of gold is not less bulky than a cubic foot of lead. Consequently, its bulk, in this sense, is a function of its value. If it were less valuable its weight would preclude its use as a medium of exchange, or at least as a sterling medium.

A preliminary condition of being money seems to be

that it is acceptable, and anything that mediates an exchange being accepted by and, consequently, acceptable to one party, it follows that all classes of goods which are used to mediate exchanges, e.g. bills, cheques, securities, bank-notes, silver, copper, and paper currency of all kinds, are, to this extent, money. These do not all, however, possess imperishable value, and it is reserved to gold to constitute the foundation of currencies, and the basis into which the various *media* of exchange are usually somewhere convertible.

An inconvertible currency cannot, at the present day, possess a world-wide circulation; but a Bank of England note has long enjoyed such a currency. An inconvertible currency, e.g. a paper currency not convertible into gold, could conceivably possess a world-wide circulation, on the supposition that it were always convertible, on demand, into required kinds of goods. On these terms a world economic system could have a paper currency. Even gold loses its value if it is not convertible into required kinds of goods. Thus the ultimate basis of a currency is neither paper, nor gold, nor the credit of a government—but the efficiency and stability of an economic system.

Wherever the shipment of gold is comparatively small in relation to the total trade between two countries, the use of bills of exchange has seemed to restore the appearance of barter to the international exchange of commodities. Gold is not shipped backwards and forwards with every exchange that is made. Only the final account is liquidated by gold. On the other hand, in the interior economy of a community, although bills and cheques are drawn, performing their normal functions, the majority of exchanges are mediated entirely

by money. Money is not here a "make-weight," *but the whole weight of one side of the exchange.*

From this circumstance we cannot fail to perceive that an exchange which is mediated by money is a threefold business. It is rather like a knight's move in Chess. The real exchange is between goods and goods, or between services and services. But the mediated exchange is one which involves a neutral middle position, in which money is held for a time by some middle party before again being converted into goods or services. Exchange in a Money Economy is a three-legged business, in that the ultimate desire, if we leave misers out of consideration, does not stop short at money, but at what money can buy. The whole exchange is not theoretically complete for the party which remains in possession of the sum of money, namely, of that which is only the medium and not the object of exchange.

Nevertheless, in the "Profit" System, there have always been those who have perceived the tactical advantage of occupying the middle ground, and of being the general repositories of money. These are, firstly, the merchants and middlemen generally; and, secondly, their *agents*, the bankers and money-lenders. These always aim to get back into their possession as soon as possible the money they have parted with, *and a little more besides*, this "little more" being the "Profit" upon the sale of goods above their cost-price, representing the spoliated Surpluses of labour. "Rent" and "Interest" are only secondary phenomena of the "Profit" System, and only arise after "Profit"-taking and the spoliation of Surpluses have resulted in a substantial maldistribution of wealth in the community.

The "Profit" System, with its general corollary of

"Rent" and "Interest"—a system which, without doubt, is the favourite child of Semitic genius—is extremely favourable to the rapid accumulation of Wealth as the result of habitual overcharges and habitual indefensible contrivance of artificial scarcities. This is the system which is buttressed and bolstered by the Marginal economists. What it does is to exhaust the wages of all kinds of honest labour sooner than there is any economic rhyme or reason for their being exhausted, by causing people to pay more for the goods they require than theoretically they need pay. Having alienated the Surplus from the labour, the middleman then banks it; and the bankers then lend out at interest what never should have come into their hands, at least through such channels.

A point which for long has escaped notice, especially between labour and its employers, is that it is not the employer who stints the labour. The employer's peculiar victim is the customer for his goods. It is the middleman who stints the labour, *by minimizing the purchasing-power of the wage.*

These overcharges are not confined, by any means, to the interior money economy, and the apparent equilibrium in international trade, mediated by the shipment of gold, does not in the least preclude one nation from having taken a "Profit" of another (especially a manufacturing of an agricultural), or from having deprived it of its legitimate Surplus, by means of the contrivance of a scarcity, in withholding the sale of its goods at cost-price.

The relationships existing between the Money Economies of States using dissimilar unitary standards of sterling value give rise to the study of the Foreign Exchanges, in which the *par* of exchange is seen to

express the ratios in which foreign currencies exchange with the pound sterling. The "business" of the Foreign Exchanges is chiefly concerned in the contrivance and taking advantage of fluctuations in the rates of exchange of foreign currencies. Thus a great deal of money can be made by pressing a country, whose finances are known to be in a parlous condition, as e.g. for the payment of reparations, or for the interest on a loan; or by lending it a little more money, and allowing it to recover again for a space; until it is time to put on the screw again. The method of procedure, broadly speaking, is not different from that of the ordinary private money-lender, whose circulars we now no longer receive. Fluctuations can be caused in this way in the exchange ratios of currencies; and a great deal of money can be made by banks and financiers (i.e. international money-lenders), who understand their business; and a great deal of money can be lost by small speculators, who don't.

In general, the laws which govern goods and services govern also money, which is a form of "good" and involves the performance of services. There is a production of money from the raw to the finished state, and this is mediated by a backward flow of money, which pays for the different services involved, as in the case of goods. It follows that there is a cost-price of money; and, since the Mint is not run for the sake of showing a "Profit" (though there is seignorage, and even, in bad times, a debasement of the currency), we may take it that the *par* of exchange affords us, through the £1, an approximate measure of the cost-price of foreign currencies. Further, if there tends to be a Surplus upon the labour which produces goods, there must tend also to be a Surplus upon the labour which produces money.

Consequently, if money is not sold at cost-price, i.e. within a little, at the *par* of exchange, there must be, as in the case of other goods, an artificial scarcity in money, and the consequent spoliation of a Surplus and its conversion into a "Profit." The "business" of the Foreign Exchanges, therefore, is seen to be only another example of how illicit "Profits" can be taken by means of the manipulation of an exchange. By means of diagrams we are shortly going to show exactly what happens.

The sums raised at different points, both in the governmental (e.g. by Treasury Bills) and in the industrial machine, by the discounting of bills, are called "credit money," and represent a species of loan which is paid back automatically at the end of three or six months, or is liquidated at sight, by the drawee taking up the bill, without any further trouble to the drawer. This is only a method of forestalling the return upon labour, and the mistake must not be made of supposing that the *consumed* cost of the product has not already been laid down and consumed. This would be to confuse the consumed cost with the equivalent of it which reappears in the return, and might easily give rise to the conception that it is possible to carry on trading and manufacture and the production of raw materials by means of the consumption of a body of Wealth which clearly cannot yet have come into existence. It would be as much as to assume that the consumed cost can actually be laid down out of the return. Trading of this kind has usually been called "insolvent trading," and almost always proves so sooner or later. In part, the problem of obviating such an untoward happening as the failure of the product to materialize, *after* it has already been forestalled, has led to the important business of insurance.

If we understand money as a class of goods which is only consumed in the sense that it is continually being "spent" for the sake of the mediation of exchange, it will come to present itself to us in a less formidable aspect. We shall, in fact, be able to take up the ground, that there is not really a separate problem of money at all, though there is a special problem; just as there is no separate, but a special problem in the case of Capital, which, in the "Profit" System, is a kind of indiscriminate accumulation of Surpluses and "Profits."

Capital, money, and general classes of goods all fall under the same general laws, and are applied in the same way; namely, by being laid out and consumed in the maintenance of the labour which, in a Division of Labour, continually produces a return greater than what has been laid out to secure it. This return is purchasable at the cost-price of the product—there is no necessity to pay more, or to ask more; because, if £1 is the consumed cost, then £1 is the cost-price of the whole return; and, if this includes a Surplus, which by hypothesis it does, then the cost-price purchases the Surplus. There is no need to tack on a "Profit."

Our first impression, then, of the use of money, in a Money Economy of the Division of Labour, must be, that general classes of goods are changing hands, the exchanges being mediated by a special class of goods, to wit, *money*. Falling back, however, upon our known more fundamental view, we alter our mind as to this, and say instead, that general classes of *services* are being performed, the exchange of these being mediated by the performance of a special class of services. Finally, we come to see that what, in the end, we are dealing with is a general *interchange* of services. We thus get beyond

the point where we need try and look at a difficult problem from three different angles at once. In this general interchange of services, the consumption or use of money has no more special importance than the consumption of Capital or of any other class of goods.

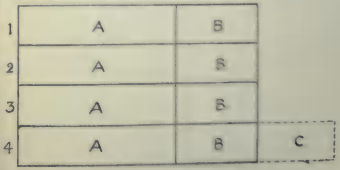
II

It is worth while making a mental note, that the Surplus arises during the process of Production; but that the "Profit" arises during the process of Exchange.

A "Profit" cannot arise at all during a process of Production; but, if anyone insist that a "Profit" arises in Production, then he has misunderstood our definition of "Profit," and what he means is that a Surplus has arisen.

A "Profit," according to its magnitude, can only come out of (1) the Surplus, (2) the whole Return, or, having absorbed all of this, (3) out of previously accumulated Wealth. It is not necessary to contemplate it as absorbing more than the Surplus.

Let us then imagine a series of men who contemplate the exchange of the product of their labour. We shall then get diagrammatically the following scheme of Production.



As before, A is the return of the cost and B is the Surplus. C is a hypothetical overcharge tacked on.

In order to make the problem as simple as possible we have assumed that all the As and all the Bs are equal, reserving for discussion in a later chapter the case where they may be unequal.

Now, unless the "Profit" is to entrench upon the return of the cost, or upon previously accumulated Wealth, I want it to be seen that it can only be paid out of the Surplus; with the result that the (*a*) and (*b*) compartments of the Surplus, both or one of them, according to the actual magnitude of the "Profit," are lost to the labourer who pays more than the cost-price of goods.

We can, perhaps, demonstrate this by adding four more men and inverting the second diagram, so that the Surpluses come opposite each other.

1	A	B	B	A	8
2	A	B	B	A	7
3	A	B	B	A	6
4	A	B	C	A	5

It seems conclusive, that if the fourth man wants a "Profit" (C) on his labour, besides the Surplus he already has, he must take the fifth man's Surplus.

More properly speaking, and quoting our first chapter, "he retains two (B) Surpluses in his hands, the vicarious Surplus, and his own *which comes back to him in the form of a 'Profit.'* "

However, in a Money Economy this can be expressed in a different way, as follows :—

If, in a Money Economy, A and B each produce goods the cost-price of which has been £1; and if A, owing to the force of competition in his class of goods, is forced to sell his product at cost-price; whilst B, owing to the abeyance of competition in his class of goods, is enabled to charge thirty shillings for his; then, if A and B happen to be each other's customers in the market, it is evident that the advantage in the exchange is going to lie with B.

For, let A sell the goods he has produced, receiving £1 for them. For the moment he may still be deemed to have received, or at any rate not as yet to have lost, the Surplus due to him by the exchange;—for he has received the cost-price of the goods. But he cannot and will not ultimately receive it, if he cannot buy back from B at cost-price (namely, for £1) the goods that B has to sell.

B takes a "Profit" on the sale of his goods; and it follows that A takes a "Loss," for he loses his Surplus—more accurately, its equivalent in money.

To every "Profit" there must correspond a "Loss." A "Profit" system, therefore, is not fully described, except by the name, a "Profit and Loss" system.

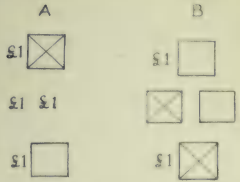
A community which once realizes this is likely to put its "thinking cap" on.

It is worth while, for obvious reasons, to illustrate the foregoing with diagrams, simple as these may be. We want to see exactly what is involved in an exchange of goods at cost-price as against one in which a "Profit" is taken on one side and a "Loss" is made on the other.

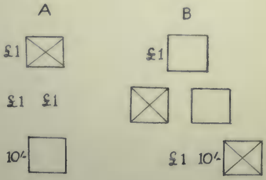
We have, here, to credit both sides with the possession of £1 (probably derived from previous labour), i.e. sufficient of the medium of exchange for either side to

initiate the exchange of goods each has produced. It does not really matter which side initiates the exchange.

There will be three rounds to this contest, illustrated, in the first case, as follows. (The squares represent the goods.)



It will be noticed that though the goods have changed hands, the money on the account is equal. In the second case there will be a "Profit and Loss." In both cases B starts off by buying A's goods at cost-price. The diagrams then explain themselves.



In this last case, it will be seen that, though the goods have changed hands as before, there is an improper accumulation of money on one side of the account. This amounts, bye and large, to the loss of A's Surplus, so that he has laboured for his bare maintenance. Thus the "brazen law" of Marx and Lassalle is justified. And it is not difficult to imagine what must be the result in a rapid and indefinite repetition of this, when the motto is "small profits, quick returns," and the dice are loaded always in favour of the same persons. We see, in fact, how fortunes come to be built up out of "losses" which are sustained in the absence of a Cost-price Rule. And, truly, it cannot be said that superior ability enters conspicuously into the matter at all, since the power to levy "Profit," and to inflict a loss, depends upon a state of the market.

It will have been noticed that in neither of the two cases has there been a failure of the goods to change hands; what improper accumulation there has been has been in money and not in goods. It cannot fail, however, to be deduced, that the improper accumulation of money must, in the future, affect detrimentally the power of the losing side to negotiate exchanges; and that this must in the course of time give rise to a wide prevalence of what is known as "ineffective demand." On the winning side, the improper accumulation of money must lead, gradually, to an improper accumulation and command over goods. The winning side comes to enjoy great Wealth, with corresponding consideration among those who place their faith in riches. In the long run, it comes down to this, that the purchasing power of the wages of the habitually losing side is exhausted sooner than theoretically it has any right to be exhausted.

The gross iniquity is obvious. In a sense it is tantamount to a private depreciation of the coin of the realm. Perhaps the expression is too strong. But what is even more obvious is the universal greed, which cloaks the stupidity of the system, in which all participate, and the majority are content systematically to lose. It is the proverbial "mug's game," played life-size.

III

We must now devote space to the investigation of the nature of Capital, and of the interest payable thereon when it is *borrowed*. This inquiry has been repeatedly postponed, on account of the great quantity of considerations which properly precede it. It leads, nevertheless, to a solution of great interest.

We have said that Capital is an indiscriminate accumulation of Surpluses and "Profits"; and this is passably correct, if we lay the emphasis on the "Profits." From the very nature of the "Profit" System it is a foregone conclusion that any large accumulation of Capital in private hands is chiefly composed of "Profits," i.e. of "Losses" made by the masses of the people to "profiteers" in the processes of exchange. It is impossible that this should be otherwise, and we have analysed the matter sufficiently for the reader to see that it is true.

The *genus* "profiteer" is a very wide one; for, in the "Profit" System, all are "profiteers" *by intention*. But in the more restricted sense, it means one who has accumulated Capital in the manner we have disclosed, and who, through it, has come to be owner, or employer, or middleman, or landlord, and who continues to accumulate Capital by the same means. "Money makes money," is

a common saying. In the "Profit" System this is the ideal of all. Everyone is in the identical boat.

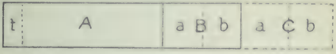
The "profiteer" merchant or middleman, in whatever situation, has to-day a prescriptive right to levy his "profit," and the public acquiesces in this without pausing to inquire whether the remuneration of the "profiteer" is, in the aggregate, either sufficient or insufficient for the maintenance of his labour, or sufficient for the maintenance of the labours of a thousand "profiteers." It simply gives in to him, and, in fact, considers him rather clever and knowing to be able to "do them in the eye" so easily, so openly, and so obviously within the limits of the law. One often hears the remark, "Oh, don't go there, so-and-so's an awful robber," or, "They rush you at so-and-so's rather, don't they?" The point is, it's quite true, but nobody takes any steps to stop it. It is the ideal of all. All are engaged in the same way of business; and it is as well to preserve the secret as long as possible, even though it be an open one.

Capital, for the purposes of analysis, is of very various kinds, which it will be necessary to go into fully. There is, for example, Capital which is already invested in plant and machinery and other forms of the means of production. This is called "fixed Capital"; and, but for continuous services of maintenance, this form of Capital would in a very short time cease to exist as what it is. "Fixed Capital" belies its name, for it is not a static quantity of Wealth, but a dynamic quantity; in that, like the cells of the body, it is in a continual flux of perishing and renewal. In Economics, it will have been noticed, πάντα ρεῖ.

It will be easier to understand Capital properly, if we

refer again to our original diagram (A *plus* B), reproduced below, with the addition of (C).

Now, "fixed Capital" is not maintained out of the (*a*) compartment of the Surplus, but its maintenance falls upon the equivalent (A) of the consumed cost. In other words, its maintenance is not "costs of growth," but "normal maintenance costs." That is to say, it is maintained by the continuous services of labour which actually consumes that equivalent (A). "Fixed Capital" is not (*a*) Capital, but (A) Capital. When it was new it was paid for out of the (*a*) compartment of the Surplus, but it has long since become consolidated into normal costs.



The question of Capital is very complicated, and our object has been to free ourselves from the immediate necessity of considering (A) Capital, that is, plant, machinery, etc. (though we must return to it again); we are thus left with the Surplus (B), i.e. with (B) Capital. This is even more complicated than the other. It must be divided into the two compartments of the Surplus, namely, into (*a*) and (*b*) Capital. But, in the "Profit" System, most of this (*a*) and (*b*) Capital will accumulate, as "Profits," in the area (C) of the hypothetical overcharge. We have, accordingly, to divide (C) up into (*a*) and (*b*) compartments. The (*b*) compartment, whether accumulating in (B) or (C), will be "costs of improvement in the standard of living." It is usually spent outright, whether in beer or tobacco, cigars or champagne—or perhaps in dresses, jewellery; or in the pursuit of some recreative sport, as cricket or polo; or of some hobby, as stamps or china; or some intellectual need, as books, science; often, also, in charitable works. This, nevertheless, should not be allowed to disguise the fact that (*b*), also, is a form of Capital which suffers an investment—less methodical, perhaps, but still an investment—in labours which bring forth a return, not in money dividends, nor with a quarterly regularity; but in things, as we have indicated, like comfort, health, or intellectual advancement. But, according as the Surplus is maldistributed, so there is bound to be a distortion in the original line of investment in these things, and the fields of science, art, sport, as of comfort, pleasure, and even of religious or charitable work, will be open to but few, whereas they might have been open to many. The reader should be careful not to underestimate the influence of this (*b*) compartment upon the collateral investment of (*a*) in businesses catering for the more luxurious, as well as the higher, demands to which Wealth and civilization give rise. If he care to pursue the line of thought, it may interest him to speculate as to whether an equal civilization, or even a greater, could not easily be accomplished, at less expense, and without the corresponding contrast of misery and distress, poverty and ignorance, which characterizes civilization in the absence of a Cost-price Rule.

For the simplification of the problem in relation to Capital with which we have still to deal, we shall hold that, wherever there are spoliated (*b*) compartments of the Surplus, the "profiteer" adds them to his one and only legitimately earned (*b*) compartment, and spends

them on "improvements in his standard of living." Thus we have only (*a*) Capital now to consider, and this is Capital properly so called, i.e. fresh Capital, or "costs of growth," which have to be put into the "business."

Now, as to the question of Capital being an accumulation, this is what it usually appears to be. This is our familiar conception of it. But to a great extent it is a misconception. Because, if we did not experience the *mal*-accumulation of the Surplus, we should see Capital only as a small annual (*a*) compartment, *which each labourer earned*, and was constrained almost immediately to utilize, in order to keep pace with a small normal rate of growth in his business.

In an Economy where there were no maldistribution of the Surplus, each labourer would earn annual (*a*) and (*b*) compartments. They are what each labourer looks forward to as, at once, the reward and incentive of his toil.

In a "Profit" System, I am afraid, it is too often the fear of starvation, or of the dole, or of the workhouse, which is the incentive of his toil. And it is not right that this should be so.

What we want now to inquire into is as to what, precisely, happens when, *owing to the operation of a Cost-price Rule*, the (*a*) Capital no longer accrues in bulk into the hands of the "profiteer."

If, for example, it is resolved to install new and more up-to-date machinery in the "business," it will be necessary to pay for this out of new Capital, i.e. out of the (*a*) compartments.

But, by hypothesis, the (*a*) compartments, providing new Capital, are no longer coming into the hands of the

"profiteers"; but the Surpluses are coming into the hands of the labourers.

Consequently, in such an Economy, it must devolve upon each labourer to contribute his (*a*) compartment of the Surplus as new Capital towards the expansion in business.

If he does not do so, there is nowhere the money can come from.

It is no longer in the power of the "profiteer" to invest more than his own (*a*) compartment as "costs of growth" in his business; and this is no greater than the (*a*) compartment of one of his labourers.

This the labourer must do, then, whether he be engaged in a single way of business, or is a worker among thousands of others in a vast commercial or industrial undertaking.

The mechanism by which this comes about is, perhaps, a little complicated, and must be thoroughly understood. The "profiteer," it will be noticed, will still be receiving the cost-prices of his goods, as these come to be sold on the market at their cost-price; and these must go in wages to the labour (including his own) and be passed back along the line of production to pay for raw and half manufactured materials (i.e. going in wages to labour outside his control), and so forth. He is thus able to keep on running his business on the same lines as before, and he can continue to do so, so long as there is no question of new Capital being required for expansion, or for basic renewals. *The titular head of the business can continue to run the business on a non-expanding basis.*

But he cannot continue indefinitely to do this; there must arise sooner or later the occasion or necessity for new Capital; the time must come when it is necessary to

make sundry renewals in machinery, sundry improvements, requiring the employment of new Capital, *which he will not now dispose of*, because the Surpluses are no longer coming into his hands as "Profits," but are coming into the hands of the labourers, by reason of the operation of the Cost-price Rule.

It is a circumstance deserving of the closest attention, that the "profiteer," running the business above, has nothing whatever to do with the manner in which the Surpluses come into the hands of his labourers. He pays them their wages out of the cost-prices he receives for the sale of his goods, and, by the hypothesis itself, these cost-prices are strictly sufficient for this purpose—as well as for his own reward. But the Surpluses come into the hands of the labourers (and his own Surplus into his own hands), because, when they (and he) go into the market to buy the things that they require, their wages (and his reward) are no longer exhausted prematurely in the old standing ratios of the "Profit" System; but now leave something over, and this is the Surplus, which, as we know, is divided into (*a*) and (*b*) compartments. Instead of the "profiteers" banking their "Profits," it is now the turn of the labourers to bank their Surpluses. This Capital, in the hands of the bank, comes again to wear the appearance of an accumulation.

It stands, now, to reason, that unless the labourers are going to contribute the (*a*) compartments of their Surpluses to the renewals of the fixed plant, or other means of production in their business, when this wears out, the whole undertaking is going to fail, and they are going to lose their employment. The "profiteer," therefore—or head of the business—has to call the (*a*)

compartments up from the labourers, just as if they were shareholders in the business.

If each individual labourer does not contribute his (*a*) compartment to the needs of the business, new Capital, formerly appropriated out of "Profits" held in reserve, must cease to flow into the business; with the result that the returns must go which maintained the labour. There is nowhere else, now, the money can come from. Cost-prices do not permit the payment of fancy dividends on share certificates; these dividends all formerly came out of "Profits," i.e. out of the Surpluses spoliated from the labour. In every other employment too, it must be presumed, the (*a*) compartments, as well as the ordinary maintenances (A), are already bespoken. The spoliated Surpluses are no longer being received by those who formerly received them, and who, to render them justice, perceived the wisdom of investing an adequate part of them in their businesses.

The real "crab" of the "Profit" System is not so much the mal-accumulation of the (*a*) compartment, since its reinvestment, whether by the labourer or the "profiteer," comes to the same thing in the end; but the mal-accumulation of the (*b*) compartment, because, what should have gone to improve the labourer's standard of living, went to improve the standard of living of those already "wallowing" in luxury; resulting in a pernicious distortion of demand, with accompanying ill effects upon investment, employment, and "industrial expansion" felt throughout the system.

But it must now be overwhelmingly to the interest of the labourers to contribute their (*a*) compartments to the expansion in business; for, besides retaining their employment, they are actually going to establish for

themselves a *de facto* holding in the share-capital of their employment. In fact, the business now passes *de facto* into the hands of those who support it, not only by their labour, but by the consumption of their Wealth. The labourers (from the category of whom we do not exclude the working directors) become the shareholders in the businesses which they run. This is not only a solution, *it is the correct solution*, of the problem of co-partnership in industry.

It can, however, only come about as a solution through an absolute insistence upon the Cost-price Rule. The *ci-devant* "profiteer" is not excluded, if he continue to contribute of his labour and of his Wealth. We are certain that he will soon tire of the uneconomic practice of contriving, or seeking to contrive, a scarcity of these. But the whole race of sleeping partners, and of those who derive income from the labour of others, is wiped out. These also, none the less, can support themselves by means of their own labour and the timely contribution of their own (*a*) compartments to the "costs of growth" in whatever business they may be engaged.

It is clear that all must subscribe equal (*a*) amounts, for unequal amounts will not avail to increase individual shares of the Surplus resulting. Thus, virtually, the (*a*) compartments come to be annually taxed, or "called up," as required; the labourer gradually establishes his *de facto* share in the Capital; and what is not required is available as (*b*) "costs of improvement in the standard of living."

So much, for the moment, then, of Capital. We have now to turn to the question of Interest. In such an Economy there does not seem to be either need, or prospect, of Capital being *borrowed*. Let us inquire into

the origin of Interest. Is it not clear that Interest arises as the result of the alienation of the Surplus from the labour which produces it, and the consequent dearth of Capital where it belongs, namely, in the hands of the labour? The Capital has accumulated, by means of systematic "profiteering," into hands in which it does not properly belong, and there is now made an artificial scarcity of it, so that it is only forthcoming on condition of the payment of a rate of Interest, such rate being settled in the usual market manner, by the operation of the pseudo-"law" of Supply and Demand.

In the Cost-price System, where the labour goes, there the Capital accumulates in its hands. If the labour moves, the old Capital is left; or is acquired by other labour; and new Capital accumulates in the situation to which it has moved. Interest must tend automatically to rule itself out. But so long as there were businesses which did not require to expand, and which did not therefore need the (*a*) compartment of the Surplus for their own development, and so long as this were not applied as (*b*) "costs of improvement in the standard of living," there would be Capital available, which, it might be thought, someone would be tempted to borrow.

But when we come to see what is involved, we shall alter our view as to this. For, in the absence of "Profit," it is clear that the individual cannot pay interest upon borrowed Capital, unless he is going to pay it out of his Surplus, and thus yield to another, not only a part of the natural increment upon his labour, but a portion of his *de facto* share in the Capital of his business. If money were borrowed at all, it would therefore be as a simple loan without Interest. To the ordinary individual it could be of no possible advantage to seek a greater rate of the

development of his business, than was already sanctioned by the normally accruing (*a*) compartment of the Surplus, because such action could not in any way increase his subsequent share of the general Surplus, this share being dependent upon the monetary amount of his wages. If a rapid increase were called for, then new labour might come into the business; and this, of itself, brings in additional Capital, because it brings in new (*a*) compartments of resulting Surpluses. At the same time, it must be foreseen that the first wages of this new labour would have to be paid out of the contributed (*a*) compartments of those already in the business, for otherwise the new labour would not be able to lay down its first consumed cost. This being the case, it can be foreseen that those already in the business will not desire the importation, or engagement, of new labour so long as they can cover the area of expansion by means of their own labour. This is a kind of safeguard against "over-capitalization" through redundant labour, as well as a guide to efficient organization and a rough measure of the full capacity of labour. This is of considerable importance a little farther on, when we come to consider that, in the "Profit" System, labour, taking it all in all, is very rarely exerted at full pressure; and that a good deal of "slack" can be taken up in the transition from the "Profit" System to the Cost-price System, before there is any necessity to call upon new supplies of labour at all. As soon as this "slack" is taken up, however, and the degree of organization becomes such, that everyone in the business is pulling his weight in it, and no more expansion can be undertaken with the existing quantity of labour; then new labour would be drawn in—and, if it has hitherto been on the "dole," the country is

now relieved of this unfruitful method of expending its resources.

In the long run, it comes to be seen, that all (*a*) compartments must be "called up," and that there must be authority to call them up, even from men engaged in a single way of business. For the single way of business does not exist for the sole benefit or amusement of that particular labourer, but for the sake and convenience of all. In ninety-nine cases out of a hundred such single ways of business, nevertheless, represent a failure in proper organization, often an actual resistance to organization; and, in general, the most unblushing variety of "profiteer" is found disporting himself within. Single ways of business are no good in a community, and are a sure sign of redundancy in control, which proper organization would eliminate, thus reducing costs. The great Trusts are obvious examples of economic rectitude in comparison of the vast *congeries* of ill-equipped, wasteful, inefficient, "sweating," and piratical one-eyed shows. Organization of the whole of this riff-raff should be insisted upon by the community, because, in the circumstances existing, it is physically and morally impossible that the goods handled by them can be sold at a price that is fair to the customer. They serve to keep prices high, even though, owing to their own overhead costs, they are not able to benefit by them themselves. It is the better organized concerns which really reap the advantage of this state of things, of which it can be said, that the sooner it is done away with, the better for everyone. The granting to prominent and efficient corporations of "Charters of Organization," enabling them to organize and absorb the small-fry, is a possible way out of this, unless they coalesce of

their own accord, as in the case of the old private banks.

All (*a*) compartments, then, are called up, and, as seems a reasonable provision, are budgeted for by some conclave of business men in an Industrial Budget of any required degree of official backing and support, which appropriates the required amount of Capital to different business requirements, thus enabling the movement of labour, and causing the necessary stringency in "over-capitalized" businesses, i.e. in badly organized businesses, which use up too much labour.

All costs being reducible in the last analysis to the maintenance of some labour, it follows that the destination of the whole return upon labour is a foregone conclusion. In practice, this return *must* come to be bought by the wages of the labour in those equitable proportions for which our theory finally provides. Consequently, it is seen that in a Cost-price System it is *impossible* to alienate the Surplus away from the labour. Thus the *de jure* ownership, whether of land, or of Capital, or of whatever other means of production, has no significance in Economic Theory, and cannot hold out to *de jure* owners the hope of anything in the way of fortuitous windfalls, of the nature of "Rent," "Profit" or "Interest." In no known economic system is there a *de jure* right to such and such a rate of "Rent," "Interest" or "Profit"; and in a Cost-price System these can be made to disappear without any interference with legal titles to Land, or the ownership of Premises and Plant, or the registration of Securities. The emoluments to which, in a pernicious economic system, they have given rise, lapse in virtue of that change in the "state of the market" which is brought about by the Cost-price System.

In a Division of Labour, in which a Cost-price Rule operates, *de jure* ownership cannot entitle to a Surplus, nor yet gain possession of it. Only labour entitles to the Surplus. Under a Cost-price Rule only labour can acquire it; only a wage can buy it. Consequently, the question as to who *owns* the Land, or who *owns* this or that, is not of the smallest economic significance. What is of moment is the question, *Who does the labour?* This is no reason, however, why the transition from one system to the other should be harsh, or invidious, or unjust.

Capital, as we understand it in a "Profit" regime, is nothing more than a swollen (*a*) compartment of spoliated Surpluses—a lymphatic gland in the economic body, betraying the presence of a poison—and with the correction of this, the sinister aspect of Capital disappears. The Conservative ambition is realized, of making everyone a Capitalist. Well and good. Further, since the Cost-price Rule rules out "Rent," "Interest" and "Profit," it also rules out, by the same token, all forms of speculation and usury. It is upon speculation and usury that the "Profit" System is founded. Usury for the Jew, and speculation for the Gentile—six of one and half a dozen of the other. This is of the very highest moral as well as economic importance, for there is now no longer a differential standard of very questionable "business morality."

The general nature of government does not at all preclude the accumulation of Capital in its hands, for taxation is but the "calling up" of the (*t*) compartments in the equivalent of the consumed cost. These (*t*) compartments must be whatever is sanctioned by Parliament, and not what is demanded by spending departments. Since the Cost-price Rule rules out differential rates of

reward, the (*t*) compartments contributed by individual labourers must all be equal, just as the (*a*) compartments of their Surpluses are equal. On the general principle no taxation without representation, we obtain the rule, adult suffrage, adult reward, adult tax. Disciplinary, compassionate and appreciative allowances, sanctioned by Parliament, may be permitted for the moment to vary the equal rate of the reward for labour, and to relieve us from the present consideration of exceptions to general rules. The State should never borrow money, for this is to stultify its right to taxation.

Under a Cost-price Rule, though "Rent," "Interest" and "Profit" are alike ruled out, there is no sudden extinction of the Capital itself. Even if the services of maintenance were discontinued, the extinction of the Capital would only be gradual. A bank balance would wear out through being spent, a mine through being flooded, machinery through rust, land would revert to the "waste." The services of maintenance are necessary, and, if these are maintained, the *de facto* ownership of the Capital, as it is renewed and recreated from year to year by the exertion of labour, must come theoretically to be vested in the whole body of the labour that maintains and recreates it through the consumption of its Wealth. The former exclusive owners, if they aid in this maintenance, participate in the return. Separate businesses must necessarily pass into the *gérance* of those who formerly were only on the footing of casual employees in them, liable to a dismissal, more or less summary, at any moment. These employees must now, *de facto*, constitute the general body of the shareholders. There will be no "watered" Capital, no "shilling" shares, no "Pref.," Deferred and Ordinary. A share is a share, in virtue of labour. There are no "ground-floors," or "backstairs." But it is not a share in any special business, so much as in the return upon the whole labour of the community. And this, just because the Surplus created by particular businesses is destined to pass *away* in exchange. Thus there is no internecine competition between businesses for the possession of the larger kind of Surplus, because it is not in the power of businesses to retain the larger Surpluses when they produce them. They pass in exchange, under the Cost-price Rule. Yet there is an honourable competition, in which everyone seeks to maximize the return upon his labour. For otherwise there must arise a competition in ca' canny, which will very soon bring its lesson.

The Cost-price Rule, then, as we are beginning to realize, tends to bring itself about, *à fur et à mesure*, according as there is a clear developed knowledge of economic theory sufficient to awaken a determination among the people to have it brought about. A predisposing factor in the case and in the situation as it at present exists is that no one can say precisely to what extent his own Surplus is victimized in the "Profit" system, although he may have a very good inkling, if he suffer from financial worry, or find himself hard put to it to make both ends meet, or if, though he has long worked well, he remain very poor.

CHAPTER IV

THEORY OF VALUE AND *CRITIQUE* OF SUPPLY AND DEMAND

THE reader will not now be in very much doubt as to what happens when goods are withheld from sale on the market at cost-price. He will have understood, from our diagrams, that this immediately begins to set in motion a maldistribution of the Surplus product, which should pass freely in exchange, but does not. This naturally vitiates the process of Distribution. It will not require a great effort of the imagination to follow out what must be the gradual result of such a system. The reader will perceive that its evil effects must be almost necessarily cumulative. Experience will teach him that in practice they are cumulative. He will see that, in the absence of knowledge, this system leads to the brink of an inevitable destruction, whether political or economic—or both—whence there is no drawing back.

Those who have lost the Surplus upon their labour find themselves deprived of all elements in the growth of their Wealth; they are not able to apply Capital of their own to the business in which they are engaged, they are not able to improve the standard of their living. They do not dispose of the increments in Wealth which result from their own labour. Actually, they dispose only of that portion of the return which is the equivalent of the consumed cost; thus their standard of living, instead of improving, remains on the same dead-level from year to

year. What they consume in one year is the measure of what they will consume in the next. They have ceased to be economically autonomous persons.

I hold no brief for Marx or for Lassalle, for Rodbertus or for Ricardo; but their "brazen law" is justified. Since the elements of growth are lacking, it cannot be said that there is anything more than a bare maintenance of the labour. The phrase "a bare maintenance" does not mean that the labourer must return to the primitive condition of a savage, but it means that there are no elements of growth in his Wealth. A "minimum subsistence" is that standard of living which is basic for the individual in question. He cannot fall below it without distress and loss of self-respect. At the present day the "bare maintenance" or the "minimum subsistence" of a bishop, a tenant-farmer, and a crossing-sweeper, would not represent an identical standard. Yet all three might systematically be deprived, through the "Profit" System, of all elements of growth in their Wealth. To remain on such a basic standard, without hope of improvement, must be demoralizing to a conscientious worker.

This maintenance tends always to the lowest, that is, towards the standard which is basic, because the scales are weighted that way. Where purchasing power is increased by the raising of wages, at all events over a large enough field, this will be offset by a rise in prices. If all the employers in England were kind-hearted men, who could afford to raise the wages of labour from year to year, it would be a mere futility. This would only enable the grocer, the butcher, the baker, the clothier, the coal-factor, to charge more for their goods, until the old ratios of the purchasing power of the wage had been restored. The employer would be making a free gift of

some of his "profits," not to the labour he employs, but to the aforesaid tradesmen. Without a Cost-price Rule, the so-called "economy of high wages" is pure moonshine. It is Love's Labour Lost.

From the "Profit" System what has resulted? In the course of time the level of the standard of living over vastly the larger portion of the field of the labouring community has come to resemble a mud-flat from which the tide has gone out very far. There is a vast dead-level of "ineffective demand." The wages of the labour are already bespoken, in tolerably definite ratios, for house-rent, food, clothes, fuel, etc.; and when these necessaries of life have exhausted the wage, the labourer ceases to count in the economic scheme. There is no possibility of any further trade with him; he is a sucked orange. Where, then, does the trade go?

We must remember that the same thing has happened in other countries besides our own. There are, in these also, vast flats and dead-levels of "ineffective demand." It is evident, now, what happens. "Trade"—that is, in excess of the bare necessaries of existence—becomes restricted to those who, in the various countries, dispose of the spoliated Surpluses. In short, the "profiteers" of one country trade with the "profiteers" of neighbour countries. In order to conceal the neglect and exhaustion of the home market, there is a great cry of "Foreign Trade." We are given to believe that the prosperity of England depends upon the exchange of luxury commodities between the Dives of the earth, rather than in the welfare of Lazarus. Lazarus may go hang. He may toil, but he may not enjoy the fruits of his toil. Thus Cobden, in 1845, told the House of Commons, "We have exported more goods to Brazil in one year than has been

consumed in a year by the agricultural peasantry and their families." To Brazil of all places!

But we have hardly as yet finished with this picture. The "profiteers" of all countries are still actuated by the same motives of "Profit"; consequently, even among themselves there begin now to appear disparities in the general levels of prosperity. The "profiteers," naturally, prey upon each other. The theoretical end of this is like the practical end of a game of "Beggar my Neighbour." In the children's game, when one or other side has won all the cards, the thing is finished with (unless there is a fight)—there is no possibility of any further "Trade." But in the world-wide field it is different: either internal revolution or external war *forestalls the end of the game*. At the best there is a continual undercurrent of industrial unrest, which is powerful enough to compel increasing taxation for the relief of distress. Thus the system goes on to its unutterably stupid *finale*, the extinction of trade, and the break up of the Division of Labour. There is an overwhelming of empires, of commonwealths, and of civilization. A slight recrudescence of prosperity is only the signal for a future war.

One has only to glance at the ancient world, to perceive in what a ruin it has been laid by the system of which we are the natural beneficiaries and legatees. In this ancient World, comprising for the most part the "ancient monarchies" of which Rawlinson has written, we see that the slightest sign of prosperity in the downtrodden population is sufficient to awaken the cupidity of the tax-gatherer. And that is what it will come to here. In England the grasp of the tax-gatherer is already upon us, and it is always a sign of the beginning of the end. The game of "profiteering" can go on well

for a time, but it only has one ending. The "Profit" System is a system which dies literally from the roots upwards.

How much better it would be, that whole nations should trade with whole nations, rather than that perpetually diminishing numbers of persons in each should gradually achieve the ruin of the whole—a ruin which, after all, is the joint responsibility of all. For all engage in the nescient practice. Good sense and a little thought can avoid all this. The Wealth of a nation, and the livelihood of millions, are more solemn things, than can be tackled by crude methods proper only on a race-course, or in a gambling-den. Is there any conceivable limit to the Wealth of a World, unhampered by war and revolution, in which each individual is permitted to take his effective part?

In our *critique* of Supply and Demand it will save a great deal of unnecessary verbiage and a possible misapprehension of the grounds of our criticism, if we explain that the general principles of Supply and Demand are as operative in a Cost-price System as they are in a "Profit" System. The difference is, that for a bogus "law" we substitute a sound economic precept. In this criticism we are about to pit the principle of one system, to be known as the Cost-price System, against the principle of another system, which is well understood under the name of the "Profit" System; that is, we are pitting the conception of the Cost-price against the conception of the Market-price as a criterion for the legitimate fixation of prices. We are thus in possession of two arch-principles of an opposing nature, which can be called in to test any question where we discover that we are at cross purposes, and which will

serve to keep us within the bounds of a scientific inquiry. Without such conscious principles it must be impossible *to know what we are talking about*, or to arrive at conclusions of any value whatever; we shall be merely engaging in a useless logomachy.

For example, the reader will probably for long have had up his sleeve a question which he has been pining to put at the first convenient opportunity, and which he would probably express in the following words: "Are you, in your Cost-price System, still going to retain the principle of a superior reward for superior skill and ability?" This is the kind of question, which looks so unimpeachable, but, in reality, either begs, or ignores, twenty questions. It is the kind of question which is met with on political platforms. It begs the question as to whether, in point of fact, in a "Profit" System, superior rewards *are* apportioned with any direct reference to the skill and ability of those who command these rewards (i.e. without any particular reference to the Market-price of such skill and ability). It begs the question as to whether superior skill and ability are *invariably* rewarded in a superior manner. It begs the question as to whether skill and ability are the *only* qualifications for a superior reward. It ignores the question as to how far skill and ability are natural or acquired, and as to whether natural aptitudes can entitle to preferential rewards. It ignores all aspects of the *cost* of training. It ignores the question as to the degree in which previous maldistribution has made superior rewards possible. It begs the question as to how superior skill and ability are comparable in different classes of employment. It makes the gratuitous assumption that anyone who receives an exceptional reward is possessed of exceptional skill and ability. It ignores the

point that, in a Division of Labour, there are many tasks not requiring exceptional skill and ability, which are, nevertheless, necessary of performance; that these are often irksome, dangerous or degrading; and that the Division of Labour alone releases men of exceptional powers from the performance of these tasks.

The truth of the matter is, that neither in the "Profit" System, nor yet in the Cost-price System, has there ever been, or will there ever be, question of the fixation of the reward of labour by single and direct reference to the skill and ability which it possesses. Nothing is more certain than that, in the "Profit" System, the reward of labour is settled by the Market-price. It is notorious, that in the "Profit" System the reward of labour is settled by the Market-price; and we desire it to be noted, and to become notorious, that in a Cost-price System the reward of labour will come to be settled by its cost-price.

The question formulated on behalf of the reader has been seen, for scientific purposes, to be entirely useless. It assumes too much, it ignores all manner of relevant objections. It is the kind of question against which we have to be perpetually on our guard. Truth to tell, skill and ability have no more status in economic theory than ownership; labour, alone, has status in economic theory.

To discuss the question, then, can only open up a vast, superfluous and sophistical bog of aimless controversy, leading to conclusions either irrelevant or false, or to that conclusion, which we are already assured is the correct one; namely, that superior skill and ability are not directly implicated in the theory of the fixation of superior rewards. Nevertheless, the idea that superior skill and ability, rather than a maldistribution of the Surplus, are at the

bottom of the great rewards which are reaped by those who either direct the industrial system, or are immediately dependent upon those who direct it, as their managers, lawyers, consulting architects, chemists and engineers, and even their doctors, is so universally ingrained in the public mentality, as to call for some special notice.

There exists, of course, a relation between exceptional skill and ability and superior rewards. What is this relation? It is a relation of scarcity, and we may put forward the three hypothetical cases, that skill and ability are only able to substantiate a claim to superior rewards (1) if the skill and ability are naturally scarce, (2) if they can contrive an artificial scarcity of themselves, or (3) if an artificial scarcity of them has already been contrived; as e.g. through a previous maldistribution of the Surplus, this having a prejudicial effect upon the "effective" demand for education and training.

From an examination of a Division of Labour as contrasted with a Crusoe Economy, it can be shown with tolerable certainty that, whereas in the Crusoe Economy particular forms of skill may be limited or lacking altogether; in a Division of Labour—at least in one of any magnitude—there must tend to be a sufficiency, at all events for purposes of direction, of the highest kinds of skill and ability throughout every class of employment. Crusoe, it is true, may find himself better at fashioning an axe than at tanning a piece of leather; he may be a better fisherman than he is husbandman; he may be better at weaving cloth than at blowing glass; if he has any leisure time he may turn out a better musician than astronomer.

But this will not be so in the Division of Labour. The whole range of skill will tend to reproduce itself in every

kind of employment. There will not tend to be a natural scarcity of skill in some employments as compared with the same degree of skill in other employments. The highest kind of skill in agriculture will be comparable with the highest kind of skill in astronomy, or the highest kind of skill in music with the highest kind of skill in metallurgy. There is a natural scarcity of skill and ability in the sense that, in each employment, the highest kinds of skill and ability are rare in comparison with the general ruck of employed skill in those employments. Each employment presents the aspect of a pyramid, possessing an apex of the more brilliant kinds of skill and ability, up to the highest kind, and broadening out towards a base of usefulness and efficiency of a less dazzling order. This is all to the good in a Division of Labour, and makes for the due apportionment of labour in the quantities that at various points are required. Many soldiers are wanted in a battle, but only one general staff, and only one commander-in-chief. We have, therefore, to record, that there *is* a natural scarcity of the highest kinds of skill and ability.

Quite a different question is as to whether this natural scarcity is sufficient *of itself alone* to secure for the highest kinds of skill and ability superior rewards. We know perfectly well that it is not. It is a matter of common knowledge, that an inventor was rarely the one to reap the advantage of his own invention, until the Patent Laws enabled him to contrive the desired scarcity of the product of his labour. It is quite clear, that in order to secure a superior reward, the possessor of the highest skill and ability has to superimpose upon the natural scarcity of his talent an artificial scarcity, or he must go without his superior reward. Wherever possible, then, he withholds

his services for the sake of a superior reward; where others in the Division of Labour are furnishing theirs. What we are coming to see is that this vaunted skill and ability of the "Profit" System is just a skill, or ability, in the contrivance of a scarcity of your own labour, in an association of labour to which you belong. It is a pure stultification of the idea of a Division of Labour. It is "gentleman's ca' canny," to coin an expression which savours slightly of a contradiction in terms. It is skill and ability, not in any useful direction, but in the contrivance of artificial scarcities of your own labour, or in having them contrived for you, and it is nothing else than this.

To a certain extent we are living in an economic madhouse. As involving the spoliation of Surpluses, the whole transaction is clearly immoral; but, what is more to the point in an economic treatise, is that, at the same time, *it is thoroughly uneconomic*. The Division of Labour does not exist to be a target for the practice of amateur blackmail of this description. The individual must keep faith with those others with whom he finds himself associated in the general labour of the community. Otherwise, his particular economic unit will go under, torpedoed by his own stupidity. It is *not* the best way to go about creating Wealth and prosperity. The "Profit" System, with its absurdly British spirit of sturdy independence—instead of an intellectual appreciation of mutual *dependence*—is the science of the destruction of Wealth, and especially of the Commonwealth. It is a *reductio ad absurdum* of the philosophical conception of a Division of Labour. What we come to see is, that the guiding principle of the "Profit" System is the contrivance of artificial scarcities in the supply of different kinds of labour. Dr. Bosanquet has remarked, "Society *prima facie* exists in the correlated

dispositions by which a plurality of individual minds meets the need for covering the ground open to human nature, by division of labour in the fullest sense. . . . All that we needed to show," he continues, "was that what makes and maintains States is will and not force, the idea of a common good, and not greed or ambition; and that this principle cannot be overthrown by the facts of self-interest in ordinary citizens, or of selfishness in those who would mould the destinies of nations." (*The Philosophical Theory of the State*, pp. 178 and 295.)

The "Profit" System, by limiting the extent of the market, evidently limits the Division of Labour. We are not released to "cover the ground open to human nature." We tend always to be occupied with the lower and more trivial needs, and have to suffer the vulgarities of an age ridden by the power of the purse. The reins fall from the hands of those who could lead, and could impose purer standards of right and wrong. *Facile princeps*, in the pernicious method, is the common, or garden, "profiteer"; for he sets the whole ball a-rolling. It is the merchant "profiteer" who first takes that sum of money for the product, in excess of its cost-price, which we can then watch making its way back, in a direction contrary to the stream of goods, until it has paid "Rent" to the landlord, "Interest" to the capitalist, and "Profit" to those who successively "own" the product from its raw to its finished state, and a bare maintenance to such labour as is not able, by the contrivance of a scarcity of its own talent, to command for itself preferential rewards.

Such "profiteering" must, of course, not be overdone; but then we have the "marginal calculus," so cleverly devised by the economists of the Cambridge School, to prevent us from committing such a solecism. We can tell

exactly, by means of mathematical graphs, carefully revised and kept up to date, how much the market will stand. We can gauge the "elasticity" of Demand to a nicety. Nowadays, it is the tendency in the Economics of Trade Unionism to seek to establish artificial scarcities in their particular sorts of labour by means of close trade unionism, and by a species of "going slow," which has come to be called "ca' canny." Who shall blame them? It is the natural outcome of the system. In Rome one must do as the Romans. One wonders if they employ "marginal" graphs. Nevertheless, this policy is likely to prove the final episode in the destruction of trade and in the break up of the Division of Labour. If this is to be avoided the system has to be changed.

In the "Profit" System the Market-price is settled by the so-called "law" of Supply and Demand, which operates in such a manner, that it rules out *nine-tenths* (*vide* Chapter V) of the normal demand of the community by demanding excessive payments for quite the most trivial, though none the less necessary, products of the industrial system, as e.g. boots and clothing generally, food, fuel, housing, and so forth; and, *having ruled out this demand*, it then applies itself to the satisfaction of "effective demand" in luxury lines of goods, such as "Gadfly" in the *Daily Herald* is never tired of urging upon the unresponsive "Henry Dubb." Needless to say, the majority of these luxury goods could be produced at such a price, whether at home or abroad, that every grown man in England could in time find them within his means, if he were not defrauded of the Surplus upon his labour.

As before, we repeat, that there is nothing in heaven or in earth to prevent goods being sold on the market at

their cost-price, and this without the slightest abeyance of the general principles of Supply and Demand. When this fact is appreciated, it will be seen that the idea that Supply and Demand conspire to furnish a "law" is purely ridiculous. The Cost-price Rule *also* operates under the general principles of Supply and Demand, only here the individual refrains from enriching himself at the expense of his neighbours.

In the Cost-price System the fixation of prices proceeds exactly as in the "Profit" System, except that we rule out an *artificial* scarcity as uneconomic and non-permissible. The Demand for various classes of goods is no secret; either it is known from previous experience, or production has to adapt itself to increasing or diminishing markets, and to changing conditions. If there is not actually an ascertained demand, at least there is an assessment of demand. We assume, then, that there is an approximate assessment of demand. The artificial scarcity being ruled out, it follows that the Market-price is the Cost-price. We are now in a position to formulate the sound economic precept of the Cost-price System.

THE LEGITIMATE MARKET-PRICE, WHETHER OF LABOUR OR OF GOODS, IS THE COST-PRICE, WHICH PRICE IS SET BY THE ASSESSMENT OF DEMAND IN OPERATION AGAINST THE *NATURAL* SCARCITY OF THE PRODUCT. THIS PRICE, AS WE KNOW, IS CAPABLE OF PURCHASING FOR EVERY LABOURER THE (*a*) AND (*b*) COMPARTMENTS OF THE SURPLUS.

Under a Cost-price System Demand and Supply are not found to produce that final absurdity of the "Profit" System—a wide prevalence of "ineffective demand." The economists of the "Profit" System have long harboured

this extraordinary by-product as a kind of Museum piece in their works; and it seems to have awakened neither curiosity nor misgiving in their minds. How a "law," which begins by flattening out nine-tenths of normal demand, reducing it to a condition of pure "ineffectiveness," can be said to furnish an "equilibrium of Supply and Demand" is a question we had better gloze over here. It seems to constitute one of the grossest absurdities that have ever disgraced the *arcana* of science. In the "Profit" System Demand is said to "call forth" the Supply; this Supply, nevertheless, actively withholds itself, so that it is *not* "called forth," and the bulk of the Demand remains "ineffective." What could be more stupid or unveracious than this?

It should be clear, that there can only be an "equilibrium" of Demand and Supply when the whole Demand is effective and is able to call forth the Supply. Where a *natural* scarcity exists, it may be impossible to satisfy the whole of the Demand. But here, at least, is a very intelligible reason why Demand should go unsatisfied. But surely, in a Division of Labour, we should be entitled to take it for granted that the Supply is not being artificially withheld, and the market "rigged" by those who do not care to understand their obligation in society.

By lowering the prices of those goods which are being sold on the market above their cost-price, there is a gradual resuscitation of this *caput mortuum* of "ineffective demand." And, as the inequalities in Distribution are reduced, production tends to take that direction which will fill out and supply the wants of those whose voice has hitherto maintained the dignity of impoverished silence. And this without any abeyance of the general principles of Supply and Demand. Demand, in point of fact, is more

able to "call forth" Supply than it ever was before. And it calls it forth in the same way, not by a mute gesticulation, but by saying what it wants. There are ways and means of discovering the extent of demand, but there is, at the present day, no particular perfection of these ways. The grocer asks what his customers want. He does not have to make a guess. They tell him; and the grocer makes a note of it; and when the traveller comes round, he tells the traveller; and the traveller passes on the information; and so the news gets about; and eventually the producer of the raw material hears—that Mrs. John Bull would just as soon have English butter, as Danish or New Zealand, now that she no longer has to pay "through the nose" for it. Demand never has, and never will, call forth a Supply in equilibrium with itself until the Cost-price System rules.

What is now apparent is the very slight difference which really obtains as between the "Profit" System and the Cost-price System. Reduced to its lowest terms, the only difference is the extinction of unwarrantable artificial scarcities. These are ruled out as uneconomic and inadmissible. If necessary, they can be ruled out by law. We do not claim that the Cost-price System demands a radical and far-reaching change in the economic world. It doesn't.

It will appear that there must be proper authorities charged with the duty of seeing that the prices asked correspond with cost-prices; but, with the proper realization, that the common prosperity, and, indeed, the life of the State, are involved, I think it much more likely that, in the course of time, "profiteering" will die out of its own accord; or at least be restricted, like "cheating" at cards (with which it has much in common), to disreputable persons. People will come to be extraordinarily particular that they do not charge more than the cost-price of goods. And this is how it should be. This is "will and not force"—"the idea of a common good, and not greed or ambition." Such a thing as this is largely dependent upon the education and general tone of public feeling. The cost-prices of goods will be tolerably well known, they will not jump about as they do at the present day. It will also be known that they should gradually diminish rather than increase. If the prices of certain goods show a tendency to increase, this will be a matter for investigation. It may be accounted for by an exhaustion of particular supplies. There must, of course, always be a certain amount of routine work in "costing" and "averaging," but this is a branch of activity which is coming into much more general use and vogue at the present day.

An excessive or wasteful demand is checked in the same way as at present, though, perhaps, even more efficiently—namely, through its tendency to exhaust the wage in undue proportion as against other necessary or desirable expenditures. But there will be much more left over for recreative studies and activities. Legislation can interfere with undue tendencies towards the excessive consumption of alcohol and drugs, as at present.

"Ineffective demand" seems to be the true underlying cause of unemployment, as "profiteering" is the underlying cause of "ineffective demand." Just as the resuscitation of demand which has been "ineffective" must tend to draw more labour back into production: so it must be thought that, as the maldistribution of the Surplus proceeds, and demand is rendered progressively less effective, labour must go out of employment. "Un-

employment" and "ineffective demand" are the legs of the same pair of trousers. "Unemployment" through "ineffective demand" leads (1) to the sweating of labour, because it will accept employment at almost any rate through necessity and the fear of starvation; (2) to a great increase in the criminal classes (whose sins may well be forgiven them), and to vagrancy; (3) to a system of unemployment insurance, known as the "dole," in which a large volume of labour is maintained out of taxation whilst it is doing nothing, because it has nothing to do; (4) to the progressive deterioration of the health and power to work not only of the individuals chiefly concerned, but of those dependent upon them; and thus to the deterioration of the nation as a whole. The miserable effects of the "Profit" System are nowhere more clearly seen than in the evils of Unemployment.

We are now in a position to search for, and to discuss shortly, a theory of Value. In the "Profit" System it is evident that the *Value* of a thing, usually expressed in terms of money, is what anyone can be made to give for it. In the Cost-price System, on the other hand, it is equally evident that the *Value* of a thing is never more than what it costs to produce. The *Value* of a thing, in both these cases, is seen, therefore, to be measured by what need be given for it. And the word *Value*, therefore, is being improperly used; for this is not really its *Value*, but its *Price*.

In other words, it is only its Exchange-value, or value in terms of other goods. It is quantitative value. The current "theory of Value" in Economics is a *theory of Price*, and it is just as well not to employ the word Value, where Price will do. There are other uses for the word

Value, besides the quantitative use, i.e. for example, Value-in-Production (of which hitherto little has been heard in Economics); and Value-in-Use, or, as we prefer to call it, Value-in-Consumption. What is wanted in Economics is a Theory of Qualitative Value, which is entirely lacking; and we shall endeavour, now, to supply this.

The psychology of these latter kinds of Value is not at all easy. Value, properly speaking, is a kind of sentiment subjective in the mind of him perceiving the Value, and this sentiment has a different intonation or inflexion for the percipient, according to a variety of circumstances. In any production of goods the sentiment of Value is essentially "æsthetic" in the moment of production; that is, so long as the producer is actually preoccupied and wrapped up in his labour of creation, and is not thinking of the subsequent purpose for which the object is being fashioned, this last being clearly some form of use, or consumption. Every labourer, to the extent that he exercises his skill, and takes pleasure therein, is an artist; and the sentiment of Value, which casts an enchantment over his labour, is an "æsthetic" sentiment.

The second kind of Value, which is a sentiment subjective at the moment of the consumption of Wealth, will be clearly seen to be a "moral" Value. The product has a "moral" Value in consumption, and must present a "moral problem" to him who proposes to consume it; for he must ask himself, if, by reason of what he expects to produce in return, he is justified or well advised in consuming an article of Wealth which has been created. If the return is not adequate, there will clearly be a waste, and this is an immoral use of Wealth. Every labourer, to the extent that he debates the consumption of Wealth, is

a moralist; and the sentiment of Value, which decides for him his action, is a "moral" sentiment.

Now, since there is never a labour of the production of Wealth, which does not, at the same time, involve a concomitant necessary outlay or cost, that is, a use and consumption of Wealth, it follows that neither of these sentiments can ever present itself separately to the mind of the labourer. The sentiment of Value in the mind of the labourer must be a complex of "æsthetic" and "moral" values, which, in a kind of *temptation*, he balances one against the other. The labourer, for example, is selecting a piece of wood for the construction of a cabinet, and though his mind is eager with the subdued enthusiasm of the artist, he yet has time to debate within himself whether he shall now use and consume such and such a piece of wood, which he has kept for so long a time in anticipation of just such an occasion as this; or whether, on second thoughts, the importance of this particular cabinet is not such as to warrant the consumption of so considerable a portion of Wealth.

Now, the significance of all this for Economics and for Economic Value in a qualitative sense, is that, in Economics, we have to take account, not only of the Creation of Wealth, but also of its Maintenance, and particularly of the maintenance of the system itself. The "æsthetic" stands in relation to the "moral" as the creation stands to the maintenance of Wealth. These two considerations *together* make up the sentiment of qualitative economic Value. It is not only necessary to create, but it is also necessary to maintain. Thus our desire for the production and creation of Wealth must always be tempered by our sense of what is conducive to its maintenance. The labourer, who is merely artist, will, as can well be imagined, spoil any quantity of wood, in order to satisfy his artistic conception of a cabinet. It may be artistic, but the proceeding is highly immoral. A "profiteer," by the same token, is a labourer, who is willing to spoil any quantity of Wealth, so long as he satisfies his own ambition of becoming wealthy. The presence of his riches in the face of widespread poverty is an offence to morality. Strictly speaking, he is artist, without being moralist. He has never paused to consider the effect of his actions. His system belongs to the unreflecting youth of communities, and not to their reasoned manhood. The "Profit" System is essentially an "æsthetic," i.e. a speculative, *non-moral* system; it lacks one of the essential characteristics of an Economy. It makes no provision for its own maintenance. It is the system of a child, more properly, of a fool, who has not reasoned. The system is practical, but not theoretic. It is out of touch with reasoned processes of the production of Wealth, and of the maintenance of Wealth. It is out of touch with theoretic norms of conduct in the economic field.

Since a production of Wealth always involves a concomitant necessary consumption of Wealth, we perceive that an Economic Process is really one only of the continual transformation of the forms of Wealth, by means of human labour, into other forms. Production and consumption are aspects of the same thing, namely, of the transformation of Wealth. This process of transformation is governed and directed solely by sentiments of value. From these sentiments of value must be strictly excluded the unreasoned sentiment of greed. Such a sentiment has no place in Economic Theory; it has reference neither to creation, nor to maintenance. The sentiment of Economic Value has reference to both these. In its imme-

diate, unreasoned, *a priori* form, the governing sentiment of value is "æsthetic," reaching out in a kind of striving, or process of trial and error, by means of that which, in a sublimated form, is an appreciation of beauty. The appreciation of beauty is a first approximation to symmetry and justice. The appreciation of the good, on the other hand, is the final approximation, mediated by reason, to the same thing, namely, to an archetypal symmetry and justice, through which alone the permanence of a system may be ensured.

According to the degrees in which the labourer is, at one and the same time, both artist and moralist, so will his methods of the production of Wealth be governed. These two factors will conspire together to determine, as the outcome of their conflict or interaction, a single governing sentiment of Value; and this sentiment, at any particular time or place, will constitute, in its relation to the product, the sentiment of Economic Value.

We do not wish to involve ourselves too deeply in the Theory of Value, which is of a depth and interest transcending that, perhaps, of any other philosophic problem; but the reader is already in a position to perceive that it is by means of Reason, or Logic, that what is merely æsthetic in experience is enabled to pass over into what is moral, such a passage involving the construction of a "theory" (lit. a contemplation, or "looking on"), which sets a norm for future conduct. Our own theory is a case in point, for it sets a norm for conduct in the economic field.

Apart from the theory of Price (i.e. in its qualitative as opposed to its quantitative aspect), Value-in-Exchange, as involving a form of use, or *consumption*, of the product (e.g. in the case of money) might be thought to fall

exclusively into the area of "moral" values. On reflection, however, it is clear that this cannot be the case, since, for the parties negotiating the exchange, an exchange may just as well be regarded as involving a form of *production*. Thus it is entirely impossible to separate finally the constituent elements of Economic Value, and we regard it as demonstrable that the sciences of Æsthetic and of Morality enter, as constituent parts, into the theory of Qualitative Economic Value.

When you have finally ruled out the love of private gain from the life of the community—when the money-changers have again been driven from the Temple, and the φιλοκερδεῖς no longer turn up at the Games—then all classes of employment, in the Cost-price System, whether in the rendering of services or in the production of goods, come to correspond, firstly, to the conception of an Art, demanding the surrender of the artist to his labour of production. The manufacture of boots, which is only one way of working in leather, is an Art, which draws men to it, because they can take pleasure in the performance of the labour, and like to devote themselves, at the same time, to a useful occupation of this kind—an occupation which thus possesses the two essential ingredients of an economic labour, a labour of production which is, equally, a labour of reproduction, or maintenance. Cookery, in such a system, is an art, rather than a drudgery; people take up such an occupation, not only because it is necessary to maintenance, but also because they are attracted towards it, as others are attracted towards working in metals, or towards agriculture, or towards spectrum analysis. Art is not limited to the studio, nor morals to the pulpit. They—and not greed—are the springs of action in a Cost-price System.

There is no employment which will not afford some labourer the kind of life he is drawn to, and for which he feels fitted, and possessed of the necessary abilities. Some employments are almost purely creative, and have little to do with routine and maintenance. Among these we recognize the callings of those who are afflicted with "the artistic temperament." Others have very largely to do with routine and maintenance, and these are the callings of those of phlegmatic temperament. Others, again, involve a measure of both, and these are, perhaps, the true economic labours, as well as the more healthful. It is not good to think only of creation, and not at the same time of maintenance. These are necessary to the complete notion of an Economy, which is a kind of original transformation, *plus* a perpetuation and maintenance of useful forms.

In economic labours the æsthetic and the moral go hand in hand. It is not only necessary to create, but also to maintain what has been created. The science of Economics conjoins the sister sciences of Æsthetics and Morality in a single study, adding to these, as a necessary mediator, Logic. And thus on into the other sciences.

In the end there is no real difficulty about the Cost-price System. It leaves people as free as they were before. It does not diminish, but increases, their well-being, that is, their Wealth. Prosperity is a scientific certainty, for we have raised Economics to the plane of exact science. On the other hand, to ground philosophy in economic science is an idea which has not hitherto commended itself freely to thinkers. It seems, nevertheless, to have been a notion of the Comtists; and with the downfall of the "Profit" System, the way may become clear.

In a "Profit" System, therefore, we say, that the

Exchange-value of the product is ***measured*** by its Market-price; but in the Cost-price System by its Cost-price. When "profiteering" has been eliminated, the Market-price and the Cost-price are theoretically the same, and this is quantitatively the *Value* of the product.

But the Value of the product, qualitatively, is the true value of the product for a human Economy.

CHAPTER V

THE CHEAPENING PROCESS AND THE BASIS OF THE STATISTICS OF PRODUCTION

THE cheapness of goods in the "Profit" System is not the result of any conscious acquiescence of the individual in the theory of the Division of Labour, by which an individual, in expectation of receiving the goods he requires at the cheapest possible price at which they can be produced, lets go his own goods upon the market also at the cheapest price at which he can produce them; but depends implicitly upon the accidental effectiveness of a principle called that of Competition.

Competition, wherever it is effective among producers, has a natural tendency to bring down prices to the lowest level which is compatible with the cost at which the goods in question can be produced. As long as Competition effects this, the Competitive System (as the "Profit" System is often alternatively called) appears to justify itself tolerably *vis-à-vis* the community. On the other hand, wherever Competition fails to be effective, private "Profits" increase, and there is a tendency for prices to rise, until they reach an upper limit, at which the public refuses any longer to swallow the product.

It is clear, then, that on the *ineffectiveness* of Competition depends the power of the middleman or vendor to levy "Profit"; and it follows that, in a "Profit" System properly so called, there must always be, whether deliberately or through an unconscious necessity, a constant

tendency, on the part of those who stand to reap "Profit," to bring about the maximum ineffectiveness of Competition; and thus to do the public disservice, as raising the price of goods. The whole trend in Economics is obviously in a wrong direction; not towards a cheapening of the product through the efficiency of labour and of the Division of Labour, but towards an enhancement of its price. It follows, that a Competitive System and a "Profit" System are not precisely the same thing; although it may be said that they are the two sides of the same medal. For when Competition is perfectly effective, there is an end of the "Profit" that can arise from its imperfection; and consequently of the "Profit" System. And when Competition is totally ineffective, there is an end of Competition and of the Competitive System. The "Profit" System, therefore, is hardly compatible with a system truly called Competitive; because it cannot exist, except by the admission of partial, or total, Monopoly. The "Profit" System aims, as its logical apotheosis, and in entire disregard of the interests of the community, at a complete institution of Monopoly; whereas the Competitive System aims, or should aim, at "polypoly."

One cannot logically, therefore—as is sometimes heard on political platforms—uphold the "Profit" System, on the ground of the superior merits of Competition; nor yet extol the Competitive System, on the score of superior "Profit."

"Profits" arise, in proportion as the system is, or is not, monopolistic; and experience will confirm that, prior to the establishment of a "Profit" System, truly so called, there is, in general, a phase of intense competition and tariff-cutting wars, carried on without any regard to the convenience or advantage of the community, which is

the pigeon eventually to be plucked; but simply for the private ends of those who desire, or see their way, to establish a monopoly. As in contests of any description there is generally a victor who carries off the prize, and a host of vanquished: so, in this case also, there are victors, who carry off the prizes, and who succeed in putting their foes out of action, and sometimes in the bankruptcy court; and in establishing a monopoly in the class of business that they handle. Thus these contests are rightly called "internecine," and the motto of monopoly is, "*Delenda est Carthago*."

A part of the energies of those who desire to establish a monopoly must be directed, not only towards the destruction of rivals in the same way of business, but also to gaining control of the avenues and sources of supply; so as to prevent the influx of new Capital into the business, and a revival of competition.

When monopoly has been successfully established, the monopolists are enabled in due course practically to fix prices, and to charge, within certain limits, calculable by means of the "marginal calculus," what they like for the product they put upon the market; the price being, in general, judiciously adjusted to that highest figure, which the community will finally pay, rather than go without the commodity in question; or to that figure which, according to the "elasticity" of supply and demand, is likely to yield the maximum "Profit."

It is, and must be, in the competitive system, the aim of all those engaged in business in a large way to establish monopolies wherever possible, and thus to escape from the burden of competition. The greater cheapness in production, coupled with the power to fix prices, must be influences working constantly towards the establishment

of those vast financial, industrial and commercial combines, mergers, corporations and Trusts—some of them of international importance—with which everyone is so familiar. I do not say that these are the only causes leading to their formation; for the natural demands of efficiency in organization, lowering of overhead costs, reserve of financial strength, and a tendency for private savings to agglomerate into vast pools of liquid Capital, seem inherently to bring about these formations in a natural process of industrial evolution, representing an advance on the previous stages of organization and development. In many instances they present ideal conditions of production, stability, and marketing. Little further could be desired than such magnificent organization as they display. Many afford models of correctness and efficiency, and cannot but call forth wonder and admiration.

Only, however, can they be of ideal advantage to the community on condition that the goods they handle are placed on the market at the cheapest possible price; that is, taking account of all necessary margins of maintenance, at the average cost-price over the whole field of the supply. From the point of view of the community, this is the one defect that they at present possess: that they exist, not for public service, but for private "Profit." But their regeneration in this respect, as perhaps the reader has gathered, is not a matter of insuperable difficulty. By the single means of the restitution of the Surplus to the individual labourer, brought about by a concerted political desire, expressible in a constitutional manner, these organizations may be made to pass into the *de facto* ownership, and under the joint organizing ability, of those who run them. The presence of these large organizations already affords us the object-lesson we required in

the matter of the "costing" and "averaging" of the product. It must be easy, in a great wheat or metal combine, to arrive at the average cost of the whole supply, and thus to fix the wholesale and retail cost-price of the product upon the market. By such means the general purchasing power of wages is restored.

It might be thought that, were Competition to be made perfectly effective again over the whole market, all the goods which were offered for sale must come to be put on the market at cost-price, and the whole of the annual increment in production go to the public at large by means of the system of Distribution which results from the Cost-price Rule. This, however, in practice, could never be the case. The principle of Competition could only effect the placing on the market at cost-price of the whole supply of every class of goods, on the single condition, that the whole supply of goods was produced, as to every part of it, in circumstances of equal advantage; that is, where the cost-price of every part of the supply was the same as the average cost-price of the whole. It is clear, from the known conditions of agriculture and mining, that this could never be the case. The principle of Competition, though lowering the price of goods, can never bring down that price *below* the cost-price of that part of the supply which is produced in the most unfavourable circumstances. All that part of the supply which was produced in the more favourable circumstances must yield a "Profit" on the market, thus giving rise to the usual corollary of "Rent" and "Interest." The principle of Competition cannot eliminate the so-called "differential advantages" enjoyed in the case of some portions of the supply. Consequently, the principle of Competition is not capable of eliminating altogether the

uneconomic factors of "Rent," "Interest" and "Profit." Only a price-fixing monopoly, in the existing system, can properly "average" a supply and fix prices; and, if it can fix them at the highest the market can stand, *then it can also fix them at cost-price*.

Thus no very great difficulty need be anticipated in the matter of arriving at the cost-price of goods. The great monopolies can best show us the way in this. Where, as in the agricultural and coal-mining industries, organization and monopoly are alike lacking, a little pressure may be exerted; a monopolistic organization should be insisted upon and carried through. Private interest is in the direction of public good, and it cannot be otherwise in a rational theory of Economics or of the State. The contrary belief is one of those stultities that have been accepted by those in whom an "antinomy" awakens no presentiment of the absurd. There need be no toleration of the self-assertion of "private interests"; and yet these must not be set down too roughly. For the public good has seemed, retrospectively, to lie in the direction of private interest. The Cost-price System can only be brought about gradually, and not by a stroke of the pen. We do not contemplate that those who have enjoyed Wealth should need to trench upon the minimum limits of that standard of living to which they have long been accustomed. It is evident that there must be a diminution of extreme Wealth, at all events as represented by income. Untoward results are obviated by the careful synchronization of three main factors, mutually dependent, and more or less controlling and adjusting one another. These are, on the one hand, the increase in production; and, on the other, a fall in prices which keeps pace with the reduction in incomes. The process can be made so

gradual as to entail no hardship whatever. Prices cannot slump to cost-price, but must achieve this level, *as and when*. Every decline in price is an improvement in the wages of labour, and an increase in the poorer standard of living. But the standard of living of the wealthy classes, for the moment, stands still like the sun in Ajalon.

It is the same thing in the international field. There are poor countries as well as rich countries. Most are fertile, but some owe their power of levying "Profit" to the possession of superior mineral resources. This, however, is no good reason for their "profiteering." "Profiteering" only ruins markets, and leads to wars. Half the world is but a desert of "ineffective demand," partly the result of our own civilization and "Profit" System, but much more so a legacy of forerunners in the field, dating back to ancient times. We know that a large interchange of goods with such countries is, at the present day, an economic impossibility. But "Profit"-taking can only indefinitely set back any process of resuscitation. And a "Loan" chiefly benefits the lender.

Besides our own home market, all this needs revivifying, and it lies almost within the single power of England to effect it. It is the mission of new and more efficacious missionaries, who are not afraid to remind themselves now perpetually of the text, "If God then so clothe the grass—how much more shall He clothe you, O ye of little faith?" (*vide* Luke xii. 23–34). It has always seemed to me that the Gospel must conceal an esoteric economic doctrine, and I seemed partially to have interpreted it, when I perceived that, in Exchange, the Surplus passes *away* from the producer who produces it. The Division of Labour, I perceived, does not require so much the "sturdy independence" of the individual as the recognition of his dependence upon his fellows. The Surplus passes *away* from its producer in exchange. For his own Wealth, therefore, the individual is dependent upon the good will and labour of his fellows. And his efforts must contribute to theirs. In other words, *your* getting more depends upon *my* labour, and *my* getting more upon *your* good will. That is the true theory of the Division of Labour. In a Division of Labour we are all strictly dependent upon the labour of others. Otherwise there is no Division. But in the current system, everyone fends for himself, and, to boot, is inane enough to pride himself upon it. His independence takes the form of helping himself to whatever he can get. That is the "Profit" System. It is a stultification of all reasoned economics, and of human life in society.

There can be little doubt that the Cost-price System must spread Wealth and civilization over the whole world again, bringing back the reality of "Trade," filling out all this "ineffective demand," both at home and abroad, and drawing back the labour into productive avenues. For Capital is not now divorced from the labour which produces it. Wherever labour is employed, the (*a*) compartments of the Surplus—the "costs of growth" —accrue in its hands and are called up; the (*b*) compartments are spent in a gradual improvement in the standard of living. There is no longer an undue forwardness of towns, and a slovenly backwardness of country districts. Manufacturing districts do not now grow wealthy at the expense of immense agricultural areas. Even the waterless deserts, perhaps by the reconstruction of their ancient systems of irrigation, become clothed with grass again; and the supply of goods of all kinds must swell the markets out of all proportion to the poverty-stricken

supplies of the present day. But this will not come about, so long as a "Profit" is taken in one hand and a Surplus is withholden in the other. This is the mere mockery of trade, and brings its own retribution.

With an approach to cost-price levels, not only are (pseudo-) "Rent," "Interest" and "Profit" gradually extinguished as being uneconomic factors, having no legitimate place in theory; but all those differentially favoured wages of labour, which owe their elevation to the contrivance of scarcity, begin also to sink down into the mean ruck of wages, towards levels which must be eventually set by real scarcities in supply, these real scarcities being reflected in the price of the product, not, perhaps, because it takes more to maintain the labour, but because, in general, either the product takes longer to produce, or it requires the exertions of a greater number of labourers to produce it. Thus, though real scarcities must be reflected in the price of the product, they are not reflected in individual wages. No one is called upon to exert himself at the rate of the strength of two men, nor to do the work of two men. Consequently, he cannot have twice the reward. And if one man has twice the ability of another, in any case this is not of his own devising; and we think enough has already been said to show that ability does not entitle to a superior reward, but rather to a more difficult task. There must always be a certain honour which attaches to the more difficult tasks; but there is also a dignity which attaches to the lesser tasks; and an honour which attaches to those which are dangerous or irksome. Thus all wages must gradually tend towards the mean level of wages, some falling and some rising, until the level is reached.

It will, perhaps, not be beside the point, if we make

some attempt at an estimate of what such a general level of wages might be. For this purpose it will be necessary to suppose that a gold currency circulates in the country in question. Even in the case of a currency which is based on gold, and is theoretically convertible, there must be a slight depreciation of the currency and inflation of the unitary standard, if the gold does not circulate; and this would not afford us firm ground. On an inconvertible basis a wage rate is purely nominal, and the unit may so depreciate through inflation as to become valueless, as in the case of the rouble and the mark after the war. As soon as the wage is based on a freely circulating gold currency, the general rate of wages must be low, for there is evidently a limit in the extent to which a gold currency can be drawn into circulation. If this were not so, inflation would proceed as before. On the other hand, except in a "Profit" System, though the rate is low, the purchasing power of the wage is likely to be high.

Now, according to Professor A. L. Bowley's "Analysis of Income Before the War" (*The Division of the Product of Industry*: Oxford, at the Clarendon Press, 1919), which was based upon the Census of 1911, when a gold currency was freely circulating, and upon other available statistics of an official nature, the total number of occupied persons in a population of 45,220,000 was 20,150,000, made up of 14,300,000 occupied males and 5,850,000 females. Referring to Table II, p. 11, "The Table shows," says Professor Bowley, "that of the 14,300,000 occupied males, about 13,400,000 had incomes of less than £160 or were wage-earners, some of whom were slightly above this limit. Of the occupied women the great majority received less than £160." Thus, out of a total occupied population of 20,150,000, something like 18,000,000 had incomes

of less than £160. That is, *nine-tenths of the occupied population.*

If we take, now, the Table on page 14 showing the Aggregate Income of the Population of the United Kingdom (Table III, The Aggregate of the Incomes of Residents in the United Kingdom, 1911)—Professor Bowley favours duplicate titles—we shall find that the total income, including income from abroad, amounted to £2,090,000,000; but, without income from abroad, to £1,896,000,000. We are warned on p. 47 that, "In considering the division of the product of home industry we must exclude income derived from abroad." This warning need, nevertheless, not prevent us from appreciating the fact that this income, divided up among the occupied population, as the reward of their labour, would have been sufficient, with the income from abroad, to afford a wage of just over £100 per occupied person; but, without the income from abroad, *it would not have been sufficient to provide as much as* £100 *per occupied person as the average wage.* The average wage of 20,000,000 people was under £100.

We shall take £100 as being about the average wage per occupied person, which, in England, can be afforded *on a freely circulating gold basis*. The reader will probably be disappointed with the amount, but we shall have to see if the purchasing power, in the absence of a "Profit" System, may be less so.

Two points of great interest and importance, indicated by Professor Bowley in his interesting and useful analysis, though unfortunately not developed by him, give the very line of our present inquiry. These are:—

(1) The new direction of Capital under an equal division of the product.

(2) The change in price-levels and purchasing power of money.

The reply to the first of these points must be, that the new orientation of Capital will be largely in the direction of satisfying wants which have hitherto gone unsatisfied. In Professor Bowley's words (p. 50), "the effect would be that the capital and labour engaged in producing luxuries and superfluities would be transferred to the satisfaction of more elementary needs." In regard to the second point Professor Bowley, much to our dismay, contents himself with the laconic formula (p. 21)—"The very difficult questions as to the change in price levels resulting from such a transfer cannot be considered here." It is, therefore, upon our own resources that we must now rely.

It so happens that the simplicity of Professor Bowley's figures is not unfavourable to the institution of an inquiry, such as we desire to conduct. £100 is a very convenient figure to work with. Further, whatever may have been the rate of the maldistribution of the product of industry in the pre-war regime, the broad fact still remains that roughly speaking 20,000,000 people were employed at an average remuneration of this magnitude. Whatever, therefore, the actual disparities in the different rewards, the general result is true, that the cost-price of the whole product of their labour was in the neighbourhood of (20,000,000 × £100) = £2,000,000,000; i.e. about the income of the country in 1911.

Taking this as a "scratch" year, and omitting the catastrophe of the war as not relevant in a theoretical discussion, it is possible, with the premiss of an increasing product and wages seeking a level at about £100, to make some effort towards an estimate of what is going to be the nature and extent, in the absence of "Profit"-taking,

of the Cheapening Process, or *increase in the purchasing power of money*. In other words, we are imagining that a Cost-price System was inaugurated in the year 1911, so that sixteen years of our experiment are already supposed to have elapsed. A part of my reason for selecting the date 1911—besides the reason that the figures just quoted belong to that date—is that we are thus able to look back, instead of forward. To look back on sixteen years, and to say, "Well, after all, the time did not seem so very long," is different from looking forward, say, to the year 1943, which seems interminable ages ahead, but is not. As a period, it is not much to look back upon. The time goes very quickly, a great deal of water flows under the bridges in sixteen years, and the improvement or worsening in any situation during such a time is apt to be very marked. But if we were young men in 1911, we shall hardly yet have reached middle age.

Now, in a theoretical discussion of the present kind it is clearly out of the question that we should be in a position to say that, in a Cost-price System, the price of bread will have fallen so much, and tailors' bills so much, and house-rent to such and such a figure, and the value of the £100 income is now the equivalent of £1,000 under the "Profit" System. It would, perhaps, be very much in our favour if we could say such a thing as this; but the calculations required would demand the exertion of the labours of a whole bureau of trained statisticians; and even then would depend upon so many contingencies and partially verifiable assumptions as to the part to be played by this and that human factor in the general situation, and by this and that party in any necessary agreement, that the reader, in the end, would not be very much impressed by the nature of the evidence brought forward

to convince him. It is, therefore, upon our old plan that we shall rely; namely, upon that of furnishing him with the theoretical principles which have to be taken into account, and when we have indicated our conclusions, we shall leave him to draw his.

What, then, are the circumstances which attend a Cheapening Process, and make it possible?

Let us refer, again, to our old diagram (A *plus* B) and complete our inquiry into the manner of the investment of an (*a*) compartment of the Surplus, when it comes to be applied as costs of growth. The reader will remember that this diagram was capable of representing, either the facts of the return upon the whole labour of the community, or those of the return upon divisional labours of the community, i.e. of separate undertakings in the Division of Labour. He will see, however, on reflection, that these two cases cannot have precisely the same significance; for, although the "divisional" firm is investing an (*a*) compartment, it is, in reality, only passing on a portion of its required production to some other divisional firm in the community, *which already exists*; and this cannot, therefore, represent a true expansion of business, because no new labour is really drawn into the circle of employment. It is so only from the limited point of view of the first firm. From the point of view of the community as a whole there can only be an investment of an (*a*) compartment on the condition (1) that new labour is actually drawn into the circle of the general employment, or (2) that the labour of the community is not, at that particular moment, under a full load of employment, and can thus take up a certain amount of expansion, involving a partial investment of (*a*), by a fuller exertion of the labour already in employment.

Now, this latter is exactly the position that is found in a "Profit" System at the moment we begin to consider the desirability of switching over to the Cost-price System. Besides a large volume of "Unemployment," we find mills closed down, or only working half-time; and, in general, we find that the labour of the community as a whole is not, by any means, under a full load of employment. It follows, that at such a moment a great deal of "slack rope" can be taken up within the already existing circle of employment, before there is any need to call upon fresh supplies of labour.

Thus at the inception of a Cost-price System, you are going to get, through the gradual redistribution of income which comes about from the suppression of "profiteering," not only—

(1) a gradually tightening strain on the already existing circle of employment, but

(2) a gradual drawing back again into employment of the large numbers of "unemployed," and (as later necessary)

(3) a further "release" of labour, brought about, now, by the voluntary efforts of the whole of the Division of Labour towards the better and more efficient organization of industry.

All this is of considerable importance to realize properly. The "divisional" firm, when it invests an (*a*) compartment, is, it is true, drawing new labour (that of the second firm) into its own circle of employment; but to anyone who can take a *conspectus* over the whole of industry, this is clearly only so in so far as the "divisional" firm is itself concerned. The second firm, to which the first applies for the satisfaction of its new demand, is already in existence, and is normally supplying the "new" wants of, perhaps, dozens of other firms, who also require machinery, and are consequently investing their (*a*) compartments with it. From the point of view of the Division of Labour as a whole these investments of the (*a*) compartment of various firms do not represent a new expansion at all, but merely the normal and quite usual costs of industry. They are "normal maintenance costs." Strictly speaking, there is, from the point of view of the community as a whole, no true investment of an (*a*) compartment ("cost of growth"), unless new labour is actually drawn into employment. A true investment of an (*a*) compartment involves an actual laying down of the "first consumed cost" of new labour.

Though in such conditions an increased load of employment upon labour which is already half employed does not necessitate laying down "first consumed costs" for such labour, the increase in production nevertheless represents an increase in the resulting Surplus, i.e. an increase in the return upon labour above the concomitant necessary outlay or cost.

When this tightening has proceeded for a little space, it will be found necessary, in some area or other of employment, to begin to draw back the "unemployed" labour into employment; and, improvements in general organization proceeding concurrently with all this, I want the reader to see, that if the aggregate expansion is sufficient in volume, and, at the same time, sufficiently constant and uniform in character, as to be capable of expression on an annual percentage basis of growth—whatever that percentage may chance to be—we have already the first necessary theoretical *datum* of a Cheapening Process, which works out as an increase in the purchasing power of money.

It may here be noticed that, historically, and in point of fact, there is no normal growth of Surpluses from year to year, *except* in so far as this is brought about by the inventiveness of human faculty overcoming difficulties in production, i.e. overcoming the "natural scarcity" of the product. The inventions of the coinage, of printing, and of the steam-engine, are examples of human inventiveness, which have marked epochs in advance, and which in general may be said to have done so by overcoming natural obstacles to production, the first and third relating to the production and distribution of goods, the second to the dissemination of ideas. Since the invention of the steam-engine, it is probable that there have been greater advances made, through inventiveness, in the reduction of "natural scarcities" in the product, than during the whole course of the previous economic history of Man. But the principle underlying the advances made in productiveness through invention, whether taking the form of increased mechanical power, of the wider diffusion of knowledge, or of superior marketing facilities, is, in every case, an identical principle, namely, that of the *release of labour*—"to cover the ground, as it were, which human nature is capable of covering" (Bosanquet).

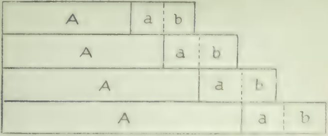
There is only this one principle—namely, the release of labour—which can ever lead to enlargements in the Surpluses resulting from labour. And anything which leads to enlargements in the Surplus is equivalent to the operation of this principle. For example, the tightening of the rein upon labour which is not already under a full load of employment, the drawing back of labour, which has been unemployed, into employment, the economization of labour through superior organization in industry, as well as the intermittent invention of labour-saving devices, are all tantamount to the operation of this principle of the *release of labour*. A wider field of endeavour is covered by the same quantity of labour as before, and, in addition to this, new labour is successively drawn into the circle of employment, either as the volume of "unemployment" is absorbed, or as the natural increase of the population affords new numbers to the Division of Labour.

It must be understood, of course, that the conditions are still operative which originally set in motion the Cheapening Process, or movement of expansion; otherwise the labour released will be released to unemployment, rather than to employment. These original conditions are the expansion in the market and the extension of demand as the result of the redistribution of income on the basis of the operation of the Cost-price Rule.

Labour, as we already saw in our opening chapter, is what ultimately costs. Consequently, the greater the economization in the labour necessary to cover a given field of endeavour, the smaller will be the cost in relation to the whole return upon labour; and clearly, therefore, the greater the resulting Surplus over the necessary concomitant consumption or cost.

The diagram we shall now have to lay down as being appropriate to the inception of a Cost-price System will be something of the following nature. There will be a return upon labour, embodying a Surplus, which is divided into (*a*) and (*b*) compartments. The cost laid down for each ensuing year will be the equivalent (A) of the "consumed cost," *plus* the (*a*) compartment of the Surplus. The (*b*) compartment, as we know, is also "spent," i.e. is reinvested in a less methodical manner.

This reinvestment of (*b*) we shall ignore for the moment. The diagram will present an appearance as follows:—



The diagram will represent an annual percentage increase in the Surplus, in which the Surpluses are successively larger by a small uniform amount.

It will be seen that, as the (*a*) "costs of growth" become invested, they sink back and are consolidated into "normal costs" for ensuing years; and, in the same manner, it may be apprehended, that the (*b*) "costs of improvement in the standard of living," as reinvested or "spent," also sink back and become consolidated into the "normal standard of living," becoming basic, as habit establishes its hold upon the recipient. It seems hardly necessary to prepare a diagram to illustrate this.

Now, the "Profit" System, though laying stress upon the need for organization in industry, does so principally for the sake of "Profit"; that is, it insists on organization as a means to the cutting of overhead costs so as to ensure maximum "Profits," but it does not take any account of the quantity of labour which is thrown out of employment directly as the result of this. In fact, it has been said that a certain quantity of "unemployment" is necessary for the efficient working of the "Profit" System.

Further, the "Profit" System looks to an increase in the return upon labour by means of the manipulation of Exchange, that is, by "Profit"-taking, rather than by any means of the actual greater production of Wealth. If it can achieve its object, i.e. large "Profits," by a limitation of output, it will not be above taking this short cut to riches. The whole idea is heterodox. But while the "divisional" firm is congratulating its Chairman at the annual general meeting of the shareholders on the declaration of a 25 per cent. dividend—a dividend not unknown even on "watered" Capital—the general prosperity of the country may be on a downward gradient of accelerating steepness.

The large banks, being principal offenders in this respect, may be likened to a Sun, which draws up moisture from over a wide ocean of industry, only to precipitate it again over a barren desert of Idleness and fashionable ostentation.

Enough has, perhaps, been said upon the delinquencies of the "Profit" System, and we do not wish to labour our point. The basic fallacy of the "Profit" System is to have included manipulation of Exchange under real forms of the *production* of Wealth. This, as we show, leads only in the direction of an evanescent *mirage* of riches.

Having so far laid out the grounds of our belief in the actuality of a Cheapening Process at the inauguration of a Cost-price System, it will now be desirable, if possible, to arrive at some percentage figure, from which we may be able to calculate the increase in the purchasing power of money. It does not, however, seem possible to estimate the annual average rate of a growth in Wealth from the rate of the maldistribution of the same. From Professor Bowley's figures I should estimate that, prior to taxation

proper and any deduction of "costs of growth," a sum of about £734,000,000 out of the £1,896,000,000 of income in 1911, was the subject of maldistribution. This sum would have been sufficient to raise the average wage (£57 or £58) of those enjoying income not above £160 to just under the £100.

As to the rates of "Profit" by which such maldistribution is brought about, it is difficult to arrive at a round figure which shall do duty for all. A normal "Profit" for a grocer, as I am informed, is half-a-crown in £1, or 12½ per cent.; but, unless I know the turnover, I cannot estimate the annual rate. It may be 25 per cent., it may be 50 per cent., it may be as high as 100 per cent. Dr. Marshall mentions, that "a rate of profits of 20 per cent. is not a very high average for some parts of the iron trade." This, I suppose, is an annual rate, though the matter is not superabundantly clear. He says also, "wholesale dealers, who buy and sell large quantities of produce in single transactions, and who are able to turn over their capital very rapidly, may make large fortunes though their average profits on the turnover are less than 1 per cent.; and, in the extreme case of large stock exchange dealings, even when they are only a small fraction of 1 per cent." It seems probable to Dr. Marshall, "that the true rate of profits in large businesses is higher than at first sight appears." (For these details I must refer the reader to *Principles of Economics*, Book VI, Chapter VIII.)

If high rates of "Profit" are the rule, then we should be permitted to argue from this to a high rate of increase in the product of labour, enabling these high rates. But if the true rate of increase is low, then high rates of "Profit" must appear the more reckless, callous, and unjustifiable. With high rates of "Profit" and a low rate of increase in

the product of labour, it must be morally certain that the "Profits" not only absorb all the Surplus due to the labourers, but trench consistently upon their actual maintenances, depressing their standard of living to the line of "minimum subsistence," thus once more justifying those who have contended for the truth of the so-called "brazen law" of wages.

In our opinion the rate of the increase of Wealth in a "Profit" System is low; and in any case the rate of the growth of Wealth in a Cost-price System must be higher than in a "Profit" System. For, where the "Profit" System inhibits Demand, and limits the Division of Labour, apportioning rewards inversely as the supply of labour—that is, as it is withheld, rather than as it is forthcoming;—the Cost-price System, with its longer view and surer insight into economic science, actively furthers the Division of Labour, encourages Demand, and enlarges the extent of the market, and must, therefore, without doubt, greatly accelerate the growth of Wealth.

In general, it is in thoroughness of organization, coupled with the intelligent use of all kinds of machinery and labour-saving devices, that lies the way to increase that vital difference between the outlay and the return, which is so necessary to the rapid growth of Wealth. It is by continuous attention to all the detail of organization, by the continuous application of the scientific and inventive faculties to the problems which everywhere await solution, by an encouragement of demand mediated by a reduction in the disparities in rewards for labour, by squeezing out the "sleeping partner" and the "drone," that a stationary rate of Wealth, or one nearly so—even if the level be a high one—can be converted into one which shows every year an increase in the product

over and above the increase in the product of the year before.

The whole of labour looks to the production of Wealth, and no longer to the manipulation of exchange. In this way arises a continual economy and saving in precious human labour. A greater field can be covered than before. The consciousness of the possibility of all this must be present in the mind of every labourer, quickening his faculties and his appreciation of the purpose for which he labours, giving him a better view over the whole effort of labour, making him feel he is a real and living part of this, and no longer an aimless wheel perched high in some irrational machine, or a "robot" in the dungeons of "Metropolis."

The extent to which, in the "Profit" System, the elementary conditions for the growth of Wealth are set at nought, whether by "vested interests" or by those with "cushy" jobs to defend, is amazing, and a standing example of the lack of sound economic principle which is everywhere apparent, even in the most self-sufficient of "business" circles. In particular, coal-mining and agriculture are notoriously the seat of those who, tooth and nail, resist the advance of better organization and co-operation, greater efficiency and safety; just because, perhaps, these things would mean squeezing out too many of the old guard, and the disappearance of many private strangleholds upon the consumer's purse. One of the first requirements in a Cost-price System is the organization of such industries on a *quasi*-monopolistic basis, with a view to the proper "costing" and "averaging" of their product, and the elimination of redundant employment (i.e. redundant wages), whether in management and direction, or in manual production and marketing. The

coal-mining and agricultural industries are large enough to be self-contained organizations, coming to an apex only in the central direction of industry as a whole. Other badly organized and, in general, smaller industries can be organized in sheaves, with those they resemble or most frequently come in contact with. The larger kinds of industries are "key" industries, and can be organized as such, upon a basis which remains entirely individualistic, i.e. non-socialistic, in character. There is not the least need for the importation of socialistic methods and ideals, as, for example, bureaucratic control. Governmental supervision upon a "bureaucratic" scale could only be rendered necessary on the assumption of bad faith; and, indeed, Socialism itself, makeshift as it is, would never have arisen, if the morality of Individualism, as exemplified in the "Profit" System, had not become intolerable to the more intelligent of the working classes. Good faith can always avoid political evils and makeshifts.

The organization of industry on the basis indicated, which is not a labour for the theoretician, is a *sine qua non* of any reasonable expectation of the growth of Wealth, as the Cost-price Rule is of peace in industry.

We shall not adopt a high rate for the growth of Wealth at the inception of a Cost-price System. We have no wish to adopt rates for the average increase of the return upon the whole labour of the community, which shall appear unnecessarily elevated to the critical reader. At the same time, we do not see our way to a reduction of these rates to such a figure as shall rob our contentions of all their point.

All we need to point out is that, if the rate of the annual increase of the product were no higher than

5 per cent., then, at rates of compound discount (which would be those operative in the cheapening of goods), the purchasing power of the wage must normally double itself in about fourteen years; and, if 10 per cent., then in about half that time. Thus, starting at "scratch" in 1911, the value of the wage by 1925 would, at the lower rate, already considerably have exceeded the £160 which, in 1911, set the utmost limit to the wages of some 18,000,000 occupied persons (i.e. nine-tenths of the occupied population). The *average* wage would have risen from the neighbourhood of £58 to a purchasing power of about £200 *pre-war*.

For the higher rate of 10 per cent., which is surely not abnormally elevated, it would, perhaps, be necessary to assume the active co-operation and good will of all those who might be supposed in opposition to changes so apparently undermining of their individual positions in society. We shall not hesitate to make an assumption of such active co-operation, and the results from this will be nearer our own conception as to the possible actuality of the growth of Wealth, which may be expected from the inauguration of a Cost-price Rule. At a 10 per cent. rate of compound discount the purchasing power of the wage would double itself in seven years, and quadruple itself in fourteen. Starting at "scratch" in 1911, as before, the £100 wage by 1925 would possess a purchasing power equivalent to £800 pre-war. I do not regard such figures as at all outside the bounds of possibility.

In defence of views so "incautious" and "unfounded" as these may appear to the reader, let us point out, that the Cost-price Rule in Economics must represent an impetus in the growth of Wealth immeasurably more

important than that of any isolated mechanical invention —even than that of the steam-engine, which marked so great an epoch in industrial advance. The steam-engine swept away and overcame a *natural* scarcity in the means of locomotion and industrial power. The Cost-price Rule sweeps away a *natural* scarcity in human perception, which led human beings to create *artificial* scarcities of their own labour. It sweeps away the folly of forty generations of men. It liberates industrial power to an extent in which it has never been liberated before. In the "Profit" System, the labour which, through mechanical invention, might have been released to new employment, was, as often as not, released to long periods of unemployment, or just thrown on the scrap-heap of superfluous labour. The "Profit" System rendered almost risible the release of labour which results from mechanical invention. Indeed, so "cheap" and below its proper price has been the labour from "unemployment," as often, conversely, to turn the scale against the introduction of mechanical improvement! The Cost-price Rule will effect an incomparably greater liberation of labour to new employment than any mechanical invention. And it will not leave it on a scrap-heap. It will release the whole of labour, from where it is not wanted, to a new employment.

Representing indubitably sound economic principle, as I venture to assert, the Cost-price System is going to find its way all over the world. It is going to lead to a World Economy. At successive stages all over the world, there will be an inauguration of Cost-price Systems, and these will reach out towards each other, absorbing labour at a prodigious rate.

> There is a tide in the affairs of men,
> Which, taken at the flood, leads on to fortune.

These different economies will mutually aid each other, and strengthen the upward lead, which has been taken in the annual rate of the increase in the return upon labour.

I could not say how long this initial rate might continue to maintain itself. At least, it might be said, that the community, in ten years, could be raised well clear of the poverty line, and above the line of unemployment. Normally, if there were no political or administrative difficulties to encounter, the rate of improvement would probably not be uniform, as we have assumed; I should say that it would be much more rapid at the beginning, maintaining the improvement over a considerable number of years, during which a maximum rate might come to be registered, this rate declining thereafter slightly and by degrees, by reason of the operation of the so-called law of diminishing returns, which must begin to operate at some point, whether proximate or remote. In practice, the initial difficulties would tend to hold up the process slightly at the beginning; and, these being overcome, to allow of a slight acceleration thereafter for a space. So that the general effect, over perhaps twenty-five or thirty years, would be a fairly even appreciation in the purchasing power of money. The subsequent rate would, it seems, be something less, diminishing eventually in a curve, which approached asymptotic limits that were never entirely reached. The increases would be relatively smaller as time went on, until they assumed a practical constancy, or only showed an appreciable increase over lengthy periods of time. Thus, after the lapse of a certain number of years, it might be expected that a standard level of wealth would be reached, at any rate as regards material comfort, representing a kind of maximum

beyond which it would be neither easy, nor perhaps requisite, to advance. Material requisites would occupy a small part of the labour of the community; there would be increasing leisure, and an increasing quantity of labour could be set aside for the purpose of the studies proper to the solution of the problems of science and of philosophy.

Now, since by hypothesis the wage has not changed, the cost-price of the product of labour is still £2,000,000,000. But the purchasing power which this now represents is greatly enhanced. Goods are no longer artificially withheld from sale at their cost-price. There is seen to be no necessity whatever for such questionable methods of the increase of private incomes. Goods not only come into the hands of those who require them at the cheapest possible price, but they get cheaper every day. This is equivalent to the exertion of a lesser quantity of labour for producing a former result. Not only is there no unemployment, but a vastly greater quantity of labour is labouring to produce a vastly greater output. The only thing that can make goods more expensive again is a great interruption in the services of maintenance, such as might be occasioned through war. The danger for England, in such a case, would lie, as always, in the possibility of a blockade preventing the importation of goods. Ships must still be the indispensable defence. The development of agriculture in a Cost-price System might make England largely self-supporting in primary needs.

The case of war, economically speaking, does not present unusual difficulties. It is, perhaps, little realized how much, during the recent Great War, the Cost-price System was actually in operation. Governments bought in bulk, and at the lowest possible prices. It is true, there was shameless "profiteering," and the "Hun" was not

then the only enemy of the State. The labour was rewarded in the usual way, that which was easily forthcoming with a shilling a day, that which withheld itself with about £10 a week. When we have understood how to conduct peace on a war basis of efficiency, then we shall not have much difficulty in conducting war upon the most efficient of all kinds of bases, namely, upon a Cost-price basis, spreading the necessary labour over the widest field of endeavour.

A fall in prices has hitherto, in the "Profit" System, been synonymous with ruin for many. In the Cost-price System, this is not the case at all. A fall in prices spells the increased purchasing power of the wage. His wages can be very conveniently credited the labourer, at proper intervals, by means of his account at a bank. This seems to be the rational way to go about things, and the organization of banking is adequate to the purpose. The aggregate of the wages—in this case the sum of £2,000,000,000—is the basis of the statistics of production, and of those costing and averaging processes which must be undertaken for the proper fixation of wholesale and retail cost-prices. A measure of government supervision will probably be necessary, as with Weights and Measures.

In a time of prolonged peace, such as we contemplate for the proper inception of the system, the cheapness with which goods could be produced would unquestionably gain for England, for so long as she remained alone in the Cost-price System, as much of the trade of the world as she cared to handle. It must be remembered that England was always alone in her Free Trade policy, of which the Cost-price System is the example in the internal economy. The advantages of this world-trade would not now arise from superior "Profit," as in the past; but from

the huge variety and quantity of goods which could be imported, as well as from the impetus given to the industrial expansion by reason of the goods which must be manufactured to pay for the imports. Without "sweating" her labour, England could undersell those countries which "sweated" their labour to produce cheap goods. The only redress against the resultant inequality would be (1) the adoption of the Cost-price System by the outclassed manufacturing countries (which would be an added benefit to the System); or (2) War. One cannot hide from oneself the fact that in human affairs an innovation is always less likely to bring peace than a sword.

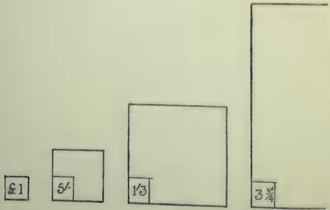
Capital not now being separated from the labour which produces it, emigrated labour would now more rapidly fill up and develop the Dominions, thus bringing additional strength to the defence of the system. Under the Cost-price System Canada might easily fill up in twenty years.

With low percentages like 5 per cent. and 10 per cent. it is not easy to illustrate the process of cheapening; but if we may be allowed, purely for purposes of illustration, to select so high a rate as 400 per cent., i.e. a fourfold increase upon the cost *per annum*, the reader will very easily see what is involved. There is, of course, no suggestion that such a rate is ever likely to occur in practice.

In this diagram we lay down, then, on the left hand, the first consumed cost of the product, which product increases in a fourfold ratio.

If the consumed cost be valued at £1, then it is clear that, after the return has been received, the same quantity of goods is worth 5s. And this being laid down again as the second consumed cost, the successive cheapenings over a period of four years are in the ratio £1 : 5/- : 1/3 : 3¾d. The rate is absurdly steep, but then the period is short, and the fourfold increase is merely for the purposes of illustration.

In practice a part of the unshaded areas would be applied as (*a*) "costs of industrial growth," and another part as (*b*) "costs of improvement in the standard of living." It thus comes about that, properly speaking, the whole of the return is normally laid down as the second, and ensuing, consumed costs, although the return of the whole of this is not exclusively in industrial goods. The return is, however, in *Wealth*. (There is a return of goods of the meta-economic order, resulting in a growth of the more spiritual kinds of Wealth.) This being the case, the diagram must be redrawn as follows:—



At rates of 5 and 10 per cent. respectively goods worth £1 would cheapen in successive years as follows:—

5 *per cent.* shillings	10 *per cent.* shillings
20	20
19·4	18·1
18·5	16·5
17·6	15·0
16·8	13·6
16·0	12·4
15·2	11·2
14·5	10·2
13·8	
13·1	
12·5	
11·9	
11·3	
10·8	
10·3	

These are rates of compound discount.

With regard to the practical cheapening of goods, it must be remembered, that there is (1) an enormous quantity of labour to be drawn gradually back into employment; (2) there is an enormous bulk of "ineffective demand" which will begin to be "effective" and to make its voice heard; (3) there is the gradual reduction in exorbitant rewards; (4) a lowering of overhead costs through the more perfect organization necessary in all classes of business; lastly (5) there will be technical improvements and inventions, which may be expected to occur more frequently than before.

Taking all these things into consideration, it is evident that there must be a great cheapening in the prices of the necessaries as well as of the luxuries of life, as these come

to be produced in greater abundance and with a more economical expenditure of labour, which is the commodity which ultimately costs. These cheapenings will leave sums over to be expended, where before there was very little, and often nothing.

CHAPTER VI

PRINCIPLES GOVERNING THE WAGE AND THE THEORY OF DISTRIBUTION

A POINT to be noticed is that, with a cheapening process such as we have described, all questions of actual want are very soon outdistanced. This is a great relief. In a "Profit" System things are distorted, as in a mirror. We begin now to see them as they really are. Want ceases to loom as an uncomfortable spectre of the economic future. People, whether rich or poor, are not so worried, they begin to see the silver lining; there is a great incentive to the labour of production. Taxation for the purposes of meeting the various kinds of indigence can be reduced, or done away with altogether. This must represent a considerable lightening of the burden which falls upon all at the present day. But the way it affects *us*, is that we are enabled to take a wider, more enlightened, more dispassionate view of the future.

What we have now to be concerned with is the general relativity of wages. £100, as we saw, was to be the average wage. With the lapse of a generation we may not unreasonably expect its value to be nearer £1,000. The question is, as a matter of principle, are there to be disparities in wages, or are they to be equal? And what is meant by equality? How much may each labourer expect to spend in relation to what his neighbour spends? Is it possible to have disparities, which shall not lead to the re-emergence of the uneconomic factors of "Rent,"

"Interest" and "Profit"—(we still, alas, need the inverted commas)—disparities which shall not, in themselves, represent surreptitiously contrived artificial scarcities of a few favoured forms of labour? There is also the question of the preservation of the markets to be considered. We must seek to avoid the slightest unnatural distortion of Demand. We have to be on our guard, in these questions, against importing our preconceived notions as to the propriety of rewards into our answers. What, then, are the grounds of judgment in such a matter as this? What is the principle governing the wage?

Mr. J. A. Hobson in his latest work *The Conditions of Industrial Peace* (1927), has recognized the tendency there is at the present day to make "needs" the basis of distribution and of the wage. "Up to a certain point," he says, "the principle of distribution according to needs is admitted. In most orderly communities it is applied, so far as to secure the bare physical subsistence of all members. In England, for example, Poor Law relief, the unemployment 'dole,' old age pensions, Employers' Liability Acts, provision of free meals under the Education Acts, must be regarded as contributions to the acceptance of this principle. The experiments in Family Allowances in various countries, and the strong support given to this policy in Britain to-day, avowedly find their justification in a principle of distribution according to needs."

What is to be understood, then, by "needs"—a sufficiently wide category? What does a labourer need? Are we to begin upon an interminable catalogue of the hypothetical requirements of some 20,000,000 different labourers, of whom some are men, others women; some

are married, others single; some have children, others none; some are manual, others mental workers; some are engaged in large industrial undertakings, others in single-handed occupations; some in the country, others in the towns? Or are we to seek a generalization which shall cover all individual cases in a general case? From the latter point of view, which corresponds with the true scientific treatment of the question, the answer can be given in a very few words.

What the labourer needs is, we conceive, in every case, what he is surely entitled to: namely, the return of his consumed cost, *plus* the (*a*) and (*b*) compartments of the Surplus. This is no more and no less than every labourer needs, and it has been our aim to secure it for him.

We have passed beyond the period when it was customary to consider only the physiological needs of the labourer, measured in pounds of meat and in cubic feet of air space. What the labourer needs is what can be purchased by the outlay, or concomitant necessary cost of his labour. His needs are physiological, moral and æsthetic. Whenever there is a Surplus, we know that at cost-prices the concomitant necessary cost, or consumption of Wealth, can buy for him the (*a*) and (*b*) compartments of the Surpluses upon the labour of all those innumerable individuals who contribute by their labour to the satisfaction of the variety of his wants. Just as his Surplus passes to them by exchange, so it is right and just that theirs should pass to him, and not be kept back by the contrivance of artificial scarcities.

The reader will, of course, have an idea of the multiplicity of Exchange. In a Division of Labour, for example, a hatter and a cigar merchant do not trade exclusively with one another and exchange the whole product of

their labour. A hatter does not acquire the whole stock of a cigar merchant, returning the compliment by letting the cigar merchant have his whole output of hats. The normal requirements of a cigar merchant are not satisfied by a thousand gross of hats. If there is a Surplus upon the labour of the hatter, we may conclude that there is a Surplus also upon the labour of the cigar merchant. But the labour of more than these two is involved; there is the labour of hosts of workers who are contributory to the Surpluses upon the hat and cigar trades. These ramify back into every conceivable channel. And it is the same with all other trades. Among 20,000,000 labourers there is an *interchange* of infinitesimal services, which is almost "atomic" in the minuteness of the Surplus involved in each. Each of these services carries with it, as it were, not the (*a*) and (*b*) compartments, but the electron and proton, or, shall we say, the *alpha* and *beta* particles, of a Surplus. These are so immeasurable, that it is a futility to seek to measure them. On the average, the interchange of Surpluses must level itself out with an equity almost inconceivably delicate. We cannot precisely see the structure of this atom, but we know tolerably well what is going on.

Since what the labourer requires is comprised, evidently, in our original diagram (A *plus* B), it is easy to see that, in terms of money, he requires the cost-*price* of his labour. This is his wage. Mr. Hobson remarks (*Conditions of Industrial Peace*, p. 33): "A wage is a particular form of *price*." We have put the word in italics. If we had said he required the "cost" of his labour, there would have been an ambiguity here; for we might suppose that this meant only that he required the return of his consumed cost, and this would only amount

to his bare maintenance, without any opportunity of improvement or expansion. What, however, we mean is that he requires what the cost will buy; and we have also to express this in terms of money. He must have the *price* of the cost, and we know that this will buy the (*a*) and (*b*) compartments of the Surplus. The matter is not altogether easy, and we have referred to this difficulty already in our first chapter. The ambiguity disappears when we say he requires the cost-*price* of his labour. What, then, in practice, is the cost-price of labour? It is the average wage.

In a Cost-price System only cost-prices justify themselves. The Cost-price Rule eliminates "Rent," "Interest" and "Profit," which arise as uneconomic factors from contrived scarcities in Land, Capital and ordinary Goods by means of the manipulation of Exchange. It also eliminates the unearned increment, representing the reward of no labour, which arises from the contrived scarcity of various forms of labour. Now, nothing whatever, in a Division of Labour, can justify an artificial scarcity; it is a wilful *niaiserie* and contempt of science. If a labourer, in a Division of Labour, seek to enforce the scarcity of his labour, he has clearly ceased of his own free will to be a party to, or to further the interests of, the Division of Labour in which he belongs. He is a humbug. He has made an industrial outlaw of himself; let us therefore outlaw him. Let us deny him his wage. If we would eat, he must labour. But *natural*, i.e. real scarcities, not only justify, but enforce themselves.

It thus comes about that there is a possibility, in the Division of Labour, that natural scarcities in particular forms of labour may reflect themselves in the wages of labour, as well as in the prices of goods, by reason

of the higher hypothetical cost of such forms of labour. There might be *natural* scarcities of certain kinds of labour, so that the eventual *cost* of this labour necessitated a higher actual *price*, i.e. money wage, in order that the labourer should not be proportionately short in his wage, in comparison with what was being received by other labourers. This *might* be the case.

It is necessary, therefore, to go into the question, how this could come about. For, the higher cost would not be in his own labour, but in the labour of his instructors.

It is possible that the impression of such an eventuality arises from considering the nature of the employment in which the labourer is engaged, rather than the labourer himself in his more universal character as a participant in the Division of Labour, entitled *prima facie* to an equal consideration with his fellows. There is always the danger of viewing such a question from the preconceived angles of the "Profit" System, and, because we seem to be accustomed to it, of imagining that the superior reward of the Governor of the Bank of England, for example, as against that of a working journalist, is due, in some way, to the circumstance that his labour *costs more to produce*. It can be said with comparative safety, at the present day, that the labour of the Governor of the Bank of England *costs more to maintain* than the labour of the Fleet Street journalist. But on what ground do we judge that it *costs more to produce*? It is possible that the Governor and the journalist were both at the same public school and university, and that their parents footed about equal bills in the education of their offspring. There is nothing to show that there is a superior cost in the production of his labour over that of the Fleet Street journalist. There is, of course, a superior

cost in the case of one educated at a public school and university as against another, whose studies are interrupted from the agricultural necessity of scaring away the farmer's crows. But this only produces an artificial scarcity of labour. It is an amenity of the "Profit" System, and the superior rewards of labour do not seem to bear so intimate a relation to the costs of its production, as to the power to contrive a subsequent scarcity of it. To carry the analysis a step further, this scarcity is of a particular kind. The rewards of labour appear, most certainly, to grow in proportion as the particular occupation affords an opportunity of effecting, at the expense of the community at large, a maldistribution of the Surplus. It can be noticed, that wherever labour is employed, it is paid according to its power to produce "Profits," and not according to its costs at all. The kind of labour which can command a superior reward is just that kind of labour which can produce "Profits"—i.e. which can maldistribute the Surplus. There tends to be a *natural* scarcity of this particular order of talent, which is partly financial and partly organizing ability. But, as we have already seen, a *natural* scarcity, of itself alone, is not sufficient to secure superior rewards for the labour. It is necessary that upon the natural scarcity it imposes an artificial scarcity, i.e. it must withhold itself, until the superior reward is forthcoming. In other words, a bargain must be driven. Thus it is certain that natural scarcities in particular forms of labour do not reflect themselves in the wages of labour. Only artificial scarcities do this. Consequently, in a Cost-price System, where "Profits" are *taboo*, and there is no maldistribution of the Surplus, there is no true occasion to consider the question as to whether there shall be disparities in

rewards. In the absence of artificial scarcities, it is *impossible* that there should be disparities in the reward of two, or more, necessary kinds of labour.

Let us investigate how the labourer, in a Cost-price System, expends his wages.

t	A	a	B	b

We know already that there is a (*t*) compartment, which is called up out of the equivalent of the consumed cost, representing the share of the taxation which the individual is called upon to bear, in order to maintain the defence and security of the realm. This need not trouble us here. The remainder of the equivalent of the consumed cost is what is sufficient to supply him with his ordinary maintenance for a year. But, normally, he also has the (*a*) and (*b*) compartments of the Surplus to expend and appropriate. The (*b*) compartment is applied to his private expenditure, and the (*a*) compartment is called up. The appropriation of all these exhausts his spending capacity, and since it is the same as the capacity of everyone else, it must be thought sufficient for him.

Now, as to the (*a*) compartment, we understand that he would not be justified in borrowing Capital, in order to increase the rate of the growth of his "business." Consequently, the (*a*) compartment of the Surplus—his "costs of growth"—must be considered theoretically sufficient to supply him with that fixed Capital or "plant" which he needs for the enlargement of his business.

But, where a difficulty perhaps arises is that, in reviewing the subject in our minds, we are apt to think

of a young doctor entering business for the first time. What we want to know is, how does he pay for his black bag and his case of instruments? Theoretically he has an (*a*) compartment of the Surplus; but we quite rightly remember, that this only comes after the first consumption of Wealth, and that he is, therefore, not in a position to lay down a "consumed cost of growth" until we can show where it comes from. Our search may be extended indefinitely back, until we begin again to interrogate the Crusoe Economy for a hint as to what happens. But we must soon realize our mistake here, for we are not dealing with one who has to initiate an economy *ab ovo*, but with one who finds himself projected into the middle of a Division of Labour, which has been going on for some time. If he had to originate his economy, there would not be much chance of the doctor getting his case of instruments; for he would have to make them.

The young doctor does not have, in this instance, to make his surgical instruments, he has to buy them. And, whether in a "Profit" System, or in a Cost-price System, he must, if he wants to be a doctor, have the expectation of the use of an (*a*) compartment of some Surplus, which has already been created. Otherwise it is an impossibility for him; and we find him in that position in which individuals in the "Profit" System are so frequently found, namely, with a general lack of all opportunity for a successful start in life.

Either, therefore, as in the "Profit" System, he has a father, or some relation, who provides the necessary funds; or, as in the Cost-price System, he is entering an organized profession, into the hands of which, for just such purposes as these, and for kindred purposes, there accrue, year by year, all the (*a*) compartments of the

Surpluses of doctors; and out of this fund is taken the money which will set the young doctor up in business.

We have already seen that this must be done in the case of the labourer who belongs to a huge industrial organization. The (*a*) compartments of the labourers are called up by the titular head of the "business." It could not be expected that a labourer embarking upon his trade should supply himself with an expensive piece of machinery. Besides, we may suppose that the machinery is already there, in other words, that the business is running. As soon as the labourer is drawn into the circle of his employment, then he is expected to contribute the (*a*) compartment of his Surplus for the purposes of growth and expansion, and in this growth and expansion must be included the drawing of new labour into its special circle of employment.

Thus we achieve a certain measure of uniformity in the practice of the Cost-price System. The (*a*) compartments of the Surplus are an equal tax over the whole field of labour, just as much as are the (*t*) compartments which go in taxation proper. The labourer cannot get out of these payments without forgoing his *de facto* share in the Capital of the business, and perhaps even without dismissal and disciplinary punishment. The wage of every labourer is known, and the amounts, both of (*t*) and (*a*), can be deducted at his bank, with the utmost convenience to himself, at the time he is credited with his wages. The levying of (*a*) is evidently equivalent to an industrial tax for the purposes of growth and expansion; and, as a tax, the fixation of the amount must clearly be a jealous constitutional matter. The amounts of (*t*) and (*a*) should be as low as circumstances warrant. The whole of the machinery of the Constitution should

be available to keep the (*t*) and (*a*) compartments, alike, at a justifiable figure. But the necessity for the due "orientation" of Capital, whether in directing it into new channels, or in controlling individual ideas upon the proprieties of expansion in this or that direction, clearly demands, as a logical development, that the whole of the (*a*) compartments form one fund, more or less in the manner that Capital does at the present day in the hands of the great banks. Many objections to this must be considered swept away, from the fact that business is no longer conducted on a "Profit"-seeking basis. *If necessary*, its appropriation can be budgeted for by a kind of Industrial Treasury, or Council, disposing of the (*a*) compartments, and run by such a composite body as the great banks in intimate conjunction with the Bank of England, the various Chambers of Commerce, and the Board of Trade.

The reader will be likely to say that such an innovation is equivalent to a measure of Socialism. We do not think so. We do not agree that it is more than a measure of necessary organization in industrial finance, suited to intelligent direction and co-ordination of expansion. The measure of Socialism will, in our opinion, be dependent upon the political party which ventures to mother the Cost-price System. A scientific system, such as the Cost-price System professes to be, has no leaning towards any party. If the Labour Party, which is at present committed to Socialism, were to inaugurate a Cost-price System, the measure of Socialism would doubtless be large. Our contention is, that the Cost-price System resolves the conflict between Individualists and Socialists, by promulgating a new principle in Economics. We do not contemplate that the Cost-price System should

be inaugurated by a party committed to Socialism, but by one committed to the Cost-price Rule. The Conservative Party, as far as we are concerned, is as fitted to inaugurate such a system as any other party—and perhaps better fitted than most. It possesses the necessary sense of moderation, and the extensive grasp which can ensure success. The Cost-price System involves little beyond the extinction of artificial scarcities, and the gradual readjustment of production in accordance with a redistribution of demand. The reader will kindly draw his red herring across another trail. Some kind of reform of the economic system has long been overdue.

In the Cost-price System the Surplus, like the Sun, shines alike upon the just and upon the unjust, upon youth and upon age, upon occupied male and upon occupied female. The economic independence of individuals is highly important, not only from the moral point of view, but from that of a sound Economy. Economic dependence is the symptom of the spoliation of the Surplus. I must confess I do not fall in with the notion of family allowances. I think the general conception, in the "Profit" System, that the family is the "basis of the State," itself arises out of, and is fostered by, the *competitive* spirit which characterizes that system. Without advocating a Platonic promiscuity, or the violation of the family bond, we yet think it desirable, if possible, to lay down a somewhat more generous principle than that the family is the "basis of the State." We should word it in the following manner, "The family is not large enough to be the basis of the State; only the nation is large enough to be the basis of the State."

The *οἶκος* is the nation. Family exclusiveness is the result of the competitive spirit in every walk of life,

and, after all, when seen in its true economic light, is only a snobbery founded upon the maldistribution of the Surplus. It is of a piece with the class spirit, and inspires a thought of Bacon, which I perhaps misquote, "He that standeth at a stay, can hardly refrain from motions of envy; for when others come on, he thinks himself go back." (Essays: *Of Envy* and *Of Nobility*.) In the Cost-price System we get beyond the pettiness which characterizes the "family" spirit. We are only too glad to see others as prosperous as ourselves. We have charity towards them. In the "Profit" System it is, of course, necessary to draw the line at a little inoffensive "charity," the giving of which is, in itself, the rebuttal of the system. To seek to do more would be like pouring water down a hole in the ground. In a "Profit" System one has to look out for one's self and one's nearer dependents. There is every excuse for the lack of charity. But the Cost-price System is the public acknowledgment of a nation's charity towards its members, both individually and collectively; and, with thought taken, this principle can be carried into the international field in successive economic integrations.

We have now to consider the (*b*) compartment of the Surplus, "costs of improvement in the standard of living," which must normally be added by the labourer to the remainder of the equivalent (A) of the consumed cost, thus making up the total of his private means. The (*b*) compartment represents a small annual addition to the purchasing power of such part of his wages as he is able to devote to his private expenditure, after (*t*) and (*a*) have been called up. It is convenient to treat of this sum as a whole.

It is not our intention to pry into the home of the

labourer. We are not particularly concerned with the manner in which the labourer expends his private means. We are not interested in his wardrobe, or in his pastimes. It is no business of ours, except in so far as it is necessary for us to see that he lays enough out for the proper education of his children. The maintenance of the children during their home-life falls, we conceive, upon the means of the parents; and we shall not seek to undermine their natural affection and benevolence. It would perhaps simplify things in some respects; for example, in the case of children not possessing these inestimable benefits. Our jurisdiction over their means will not extend, however, beyond making due provision for the education of The Child.

The Theory of Education, which, on the economic side, we propose for the Cost-price System, involves the "calling up," in the manner of (*t*) and (*a*), a compartment (*s*) "schooling," out of the private means of *every* labourer, such (*s*) compartments being, in the aggregate, sufficient to furnish the expenses of all educational foundations. This sum we intend shall be disposed of by the Board of Education, in conjunction with the usual authorities, notably the Church, and subject to the usual constitutional checks.

In our view, "the child" is a jointly manufactured product of parents, pastors and masters, which reaches the retail counter at about the age of twenty-one. Nor is this a fanciful or facetious notion; but a conception which is necessary if we are to continue to apply the scientific test of economic principle, which alone can ensure a proper understanding. It is our idea that the responsibility of the parent lasts through adolescence, ceasing at the age of twenty-one, when the young man

is inducted into his employment or profession, by means of the expenditure of an (*a*) compartment. The parents, as it were, provide the raw material for the finished product, which is gradually worked up, and passed on through successive stages, properly represented by a private school, a public school, and a university. In general it devolves upon the parents, that the child shall possess Beauty; upon the pastors, that he possess Goodness; and upon the masters, that he possess Truth. The cost of this product is *the maintenance of the labour*, as in the case of all other products. It is not anything in excess of this. That is to say, the maintenance of the pastors and masters, together with the "fixed Capital" or "plant" necessary in their business, to wit, the school, university, and cathedral premises, is paid out of the (*s*) compartment.

The teaching profession is very closely organized, i.e. it is upon a quasi-monopolistic basis, able to cut overhead costs, and to conduct "costing" and "averaging" operations, so that the cost of the product is delicately averaged over the whole field of the supply. Thus the cost of producing labour is the same in respect of every individual. But it is also very closely organized from the intellectual standpoint; Science and Religion go hand in hand. For it is realized that there can be no scientific truth which is not also a religious truth, and that there can be no truth of religion which has not also its due place in science. *Hypotheses fingo*. Both Science and the Church admit of "schools"—since they exist—and, in order to arrive at truth, must touch hypotheses; but differences in view-point need not amount to schism or heresy; the test of truth is not a pointing down the well, but a getting down there. Let us have one Church,

admitting "schools." It is not in our idea to see religious bodies worshipping in corrugated tin chapels. We are for the supremacy of England in her own house.

The principle of our own Economic Science should carry us very far in the direction of truth. From the human economy we pass, by inference and analogy, to the science of the Divine Economy of the World, in which we perceive that there is a labour of the Spirit; there is a labour of Creation, and there is a labour of Maintenance. The one is an Æsthetic, the other a Moral activity of the Spirit; the two together, mediated by the Divine Reason, make up the conception of the Divine Economy, and the Value of all this may be a sentiment subjective in the Mind of God.

When we proceed to Science, we see that it is merely tackling the same problem from a different standpoint. It is concerned with a minute scrutiny of Nature, in which the "æsthetic" strivings appear involuntary, and the "moral" strivings reflex. The science of the Natural Economy is called Evolution, the philosophy of development and of the formation of habit.

Each of the two foregoing possesses its peculiar kind of Wealth, forming a reservoir, from which, by means of his labour, man can lay hold on his own Wealth; and into which, when he has done with it, or used it up, it can sink back again and return.

The three types of Economy, the universal, the general, and the particular, can be studied, until they are all seen to be of a homœomeric oneness.

The maintenance of the labours of pastors and masters comes out of the (*s*) compartment, and these maintenances must cover the independent studies of those whose labour it is to teach. These independent or original studies correspond to the recreative studies, and are not carried on for the sake of "Profit."

We think it advisable that the (*s*) compartment be levied upon all labourers from the age of twenty-one; since, in the case of fatherless children, there is no one to provide the necessary contributions. Personal sympathies or antipathies cannot liberate the individual from the duty of fulfilling obligations so closely touching the interests of the community and the efficiency of the Division of Labour. By this means we achieve, in a certain degree, the Platonic idea of "having the children in common," without the unsavoury reactions which have attached themselves, like mud, to the innocent proposition.

In the case of women entering employment or the professions, though we believe motherhood and the home to be the sphere of women, we have thought it desirable the wage should begin at the age of eighteen. There are many considerations, both in and out of the home, which make it desirable that young women should be able, when they so desire, to stand economically upon their own feet.

If a midshipman receives pay, i.e. the wages of his labour, then there seems no reason why all boys, from about the age of fifteen, should not receive an allowance in respect of the labour performed by them at their work; and this will accustom them to the proper use of money.

If the boy is destined to be an agriculturalist, then, instead of being taken away from school in order to scare crows from the farmer's land, or to provide him with cheaper, though scarcely less efficient labour, he shall go through a usual course at an agricultural public school;

and from thence proceed to a University, where he shall take the agricultural course. This, nevertheless, shall not prevent him from broadening his mind in other directions, or from including in his studies those subjects which go to provide the liberal education of a gentleman. Besides agricultural schools, there may be, also, industrial public schools, appropriate to different forms of industrialism; these may be conveniently situated in agricultural and industrial districts, respectively. The school age should be from eight or nine to thirteen and from thirteen to seventeen or eighteen, the university age from eighteen to twenty-one. The earlier education can be undertaken at home, so as to avoid the spectacle of young children trudging daily to school, in wind or rain, frost or snow.

The spending power of the labourer is now finally exhausted, as far, at least, as we have any intention to pursue it. In the course of this inquiry we have not discovered any reason to suppose that some kinds of labour cost more than other kinds to produce. If this were so, it would be, in any case, the stupider kinds; and no one would claim that stupidity was deserving of a superior reward.

If all finish their education at the age of twenty-one, then there will be a fan-shaped distribution of new labour to various employments, those whose education has proceeded most rapidly to the more difficult or highly specialized employments, or to posts of already administrative responsibility; and those whose education has not afforded evidence of high capacity, to employments, not requiring exceptional talents, though none the less necessary and demanding a standard degree of efficiency in their performance.

The social intercourse of all these persons will regulate

itself much in the same way as social intercourse regulates itself at the present day. The essential difference consists in this, that everyone has received the education of a gentleman. Since his reward is to be the same, there is no stigma upon particular employments. To be a ploughman or a cabinet minister is a matter of individual capacity. It does not, however, follow that all are to be the boon companions of all. Nor shall we sign our letters, "yours fraternally." All meet on equal social terms, and preserve towards each other the usual amenities and civilities of society. But there will always be personal preferences: birds of a feather will still flock together. A man will always have his own particular friends, and others will be to him no more than strangers, whom, if he meet, he may come to like, or he may not. There is nothing of "Hail, fellow, well met," in our Cost-price System. This is the mere crudity of reform. It will still be permissible to relieve the feelings in respect of the bore at the club. It will be rather nice, however, to reflect that he is no longer singing for his living in the street.

Roughly, there is the same schooling for every individual, and the maintenance of the labour which provides this schooling is paid for out of contributions which fall equally upon the shoulders of all adult labourers. Thus the whole supply of this product is averaged over the whole field of the community. Labour, it must always be remembered, is, in Economics, the only thing which actually *costs*. All costs are ultimately the wages of labour.

In other respects, it may be said that, with the exception of (*t*), (*a*) and (*s*), which are called up and administered by responsible bodies, we have entirely preserved to the

individual his right to expend his money in his own way. Instead of a vast system of taxation for the support of indigence and for the relief of the unduly wealthy, we have substituted taxes for Security, Industrial Expansion, and Education—all at cost-prices. There is no leakage.

The principle of the equality of the wage is now virtually established. It remains to justify our contention that the wage should not alter for the individual at any period after the age of twenty-one (for women, perhaps, eighteen). We propose to carry the wage right through life at the same figure. Provision is already made for education of children, so that "hostages to fortune" do not entail further ransoms. At the same time, the home responsibility will tend to keep families within bounds. We do not propose that youth shall eke out its best years in penury. Let it have its fling. It is for older men to know the value of restraint. At the same time, and taking the other point of view, we feel that life is most easily prolonged in harness. Thus we propose to carry the wage right through life at the same figure. If there is any question of growing capacity, the way to acknowledge this is not by an increase in the wage, but by promotion to a more responsible post. If there is no vacancy available, there is still no grievance. In the "Profit" System a man was never rewarded more highly merely on account of his age. If brilliant talents accompanied his maturity, it was not these either which secured for him a greater reward. If youth possessed talents, it was also able to command a superior reward. We found that it was a contrived scarcity alone which managed to secure the greater rewards. And since, in a Cost-price System, a scarcity cannot be contrived, but

where it exists must be a natural scarcity, it follows that there can be no greater and lesser rewards.

The machinery of discipline, which must accompany the Cost-price System, must be held competent to deal with all cases in which labour is not forthcoming, for whatever cause; and it is not necessary here to elaborate a theory of this. The proper conduct of industry demands authority at the head, and obedience in the body, of labour; and there is no doubt that the community as a whole will confer the authority in the proper quarter; thereafter maintaining it, as all other goods are maintained. We have never followed that Benthamite philosophy, which makes of government a necessary evil, and of anarchism a philosophic good. As well might one cut off the head in order that the limbs may achieve autonomy.

We must now turn for a moment to the question of saving, and to the allied question of inheritance. Here, again, we must keep to the general principles of which we are now cognizant. It is presumed that the labourer is credited with his wages in advance, because, otherwise, he cannot lay down the consumed cost of his living. It is, incidentally, a great pleasure to receive one's wages in advance; it titivates one's sense of being trusted, and is likely to awaken a conscientious sense of responsibility, and thus to help in the formation of the character of the individual, a character which is much fostered by the new standards of our system.

It may happen that the individual is able to save a proportion of his income. This he will set by, as he has been taught, against a "rainy day." But we wish to inquire, now, if he is justified in this. We know that most goods are perishable in varying degrees, ranging

from the perishability of fresh strawberries to that of a ledger entry at the Bank of England. Money being the medium of exchange, it follows, that if gold is withdrawn from circulation for the purposes of hoarding, there is going to be an inhibition of the power of exchange; so that those who have saved gold, have saved something imperishable; whilst those who have not, are going to lose by the depreciation of their stocks of goods.

The matter goes deeper than this, however. The hoarding of gold is the contrivance of a scarcity, not only in the medium, but in the foundation of exchange. Hoarding undermines the very foundations of the financial stability of the State. The practice is so common in India, which annually absorbs large quantities of gold, as to have led to the disappearance of the traditional unitary standard, the gold mohur, and to the substitution of a silver standard. In a "gold" country, where the practice was very prevalent, it would amount to the progressive destruction of the gold basis.

The above remarks refer to the "Profit" System. In a Cost-price System, the wide prevalence of hoarding must eventually result in the diminution of the quantity of gold which can be drawn into circulation. Consequently, the wages are no longer strictly on a gold basis. It would be necessary to reduce the amount of the wages—let us say to £80—if it were intended to keep the wages on a strict gold basis. This would represent an increased purchasing power of money, which could not be taken advantage of by the hoarder, until he released the gold. Prices would then slide back to their old level. The early bird, it is true, would get the worms, but this would evidently be "profiteering,"

and a "Profit" System, not a Cost-price System. The normal use of gold for some manufacturing purposes has never interfered with the stability of the currency; but it must be indefensible to hoard gold coin of the realm.

In England, the practice of banking has tended to discourage the hoarding of gold; and savings either take the form of investments, or that of a simple credit entry or deposit account at a bank. Investments are not strictly "savings"; for the Capital invested is technically consumed, being maintained from year to year and recouped by labour and by services of maintenance. Even the simple credit entry or deposit account only represents Capital which is invested and consumed, though in this case it is the bank that uses and applies the money, the indebtedness to their customer still remaining as a simple credit entry, or deposit account bearing interest, in their books.

A credit entry or deposit account may therefore be held truly to represent "savings," so long as it remains unapplied; and we have to inquire what happens in such a case. It does not represent gold withdrawn from circulation, but something quite different. It does not represent "ineffective demand," but it represents "inhibited demand."

Now, it is evident that "inhibited demand" on a wide scale must lower production, and the capacity for production. Machinery that was hitherto employed must go out of use, and eventually to waste. Labour, that was employed, must become unemployed, requiring, nevertheless, its maintenance from day to day. Conversely, there is the potentiality of machinery, which will never be called into existence; and the actuality of

young labour, for which it is now impossible to find employment. The bank credit remains, and it is as nearly imperishable as makes no matter; but the livelihood of thousands, and the hopes of thousands, have been destroyed.

In a Cost-price System, where the Capital is not divorced from the labour which produces it, it is evident to one who thinks that saving can only take place as the result of the abstention from the laying down of a consumed cost. Consequently, *saving*, in such a system, represents the abstention of the labourer himself from labouring. The unemployment is not now involuntary on the part of an employee, but voluntary on the part of himself. The labourer, who abstains from labour, thereby contriving a scarcity of his labour, requires, nevertheless, his maintenance from day to day. Consequently, saving represents idleness and waste, and a pointless postponement of labours of expansion or improvement.

Saving is a false economy, just as the "Profit" System is a false economy. I do not, of course, mean that a man's wages should all be spent in the first few days of the week or month that they are intended to cover. But I do mean that the wages of labour, buying, as they do, a Surplus, which admits of growth and improvement, are intended to cover his maintenance over a specified period, at the end of which he receives further wages, which will again carry him over a succeeding period. Normality and "flow" are the watchwords of a sound economy. Growth and improvement must not be delayed.

It must be said, nevertheless, that in the "Profit" System there was a reasonable logic in saving; for the individual himself had only himself to look to; and since he had to look after his own interests, it could not be held to his account that he failed to look after the interests of persons, who sometimes confided their affairs to his care.

In the Cost-price System, however, it is not the individual, in any case, upon whom devolves the duty of saving, since he cannot do it out of conjunction with his fellows, without injuring his fellows. The duty of saving devolves upon the State, and must be the subject of careful consideration. Undue saving of any kind damages the economy of the nation. The savings of the State will not take the form of a book entry at the Bank of England, though the State will hold a reserve of gold in its vaults. If a war threatens, or there is intimation of bad harvests, the State may lay up supplies of wheat, of cotton, and of other raw materials. The State may provide, through taxation, against any eventuality, but our carrying the wage through to the end of life has been designed to render it unnecessary for the State to employ an army of officials in the Ministry of Pensions and elsewhere. The incidence of any provision made by the State falls equally over the whole field of labour. And, in so far as it is necessary, it is justified.

It is evident that the preclusion from saving extinguishes inheritance as we understand it to-day. There can be no inheritance of large fortunes; perhaps only an inheritance of personal effects. These will descend in an equal inheritance, or in one which is equitable. The sense of equity, as against the iniquity of the "Profit" System, is much developed by the Cost-price System. Indeed, inheritance in the "Profit" System was a scandal. It can now be known, or surmised, that a man who was

able to will £1,000,000, a sum bringing in about £50,000 a year, had enjoyed the Surpluses of 500 labourers to his own cheek and jowl, and that he was passing this power on as a bequest to another. A willed fortune of over £10,000,000, representing an enjoyment of the Surpluses of at least 5,000 labourers, has recently been known. Commenting on it, an evening paper estimated another well-known fortune at £20,000,000. The income from this at 5 per cent. would represent an enjoyment of the Surpluses of no fewer than 10,000 labourers. Five per cent. is probably a figure too conservative for the interest on private Capital of this magnitude. We need hardly wonder at the height at which taxation for the relief of distress is maintained, or at the volume of "unemployment," arising both from "ineffective" and from "inhibited" demand. The plea, that the distress is due to the war, does not move us. What we regard is the inequality of the incidence of the distress.

Lastly we turn to the theory of Distribution. With the principle of the equality of the monetary wage the theory of Distribution is much simplified. We have merely to regard the interchange of services which goes on in a community of 20,000,000 labourers. The only danger to guard against is that of underrating the stupendous volume of the separate services which together make up the labour of the community, in each one of which there is the passage from one person to another of greater and lesser particles of the Surplus created by all.

Among 20,000,000 labourers it must be an absurdity to speak of the Surplus produced by one man as being greater than that produced by another, as if these two exchanged the whole of what each produced for the product of the other; at the same time ignoring the

Surpluses produced by the whole of the remaining labourers. If the magnitude of the total Surplus is no more than 5 or 10 per cent. of the total maintenance of the labourers, it does not seem logical to suppose that there can be a wide disparity between the upper and lower limits in the actual magnitudes of the individual Surpluses. We should have to place these limits fairly close together. And in between these we should have to ram the Surpluses of 19,999,998 other labourers. So that at least the bulk of them must be of a substantial equality. But even if this were not the case, and some Surpluses upon labour were very much above the 10 per cent. line and others dropped so far below as actually to figure as deficient or *minus* quantities (so that the whole return was A *minus* B in particular cases), must we assume that this is always the fault of the individual labourer? Clearly we cannot. Are there no such things as bad harvests and the failure of crops, as well as bonanza harvests and bumper crops? Does the same person always arrive with a Surplus, and the same other person always turn up *minus* a Surplus? And if, in the Division of Labour, we have delegated to the farmer the duty of looking after our interests in the agricultural field, and he has unfortunately suffered a loss, would this loss, in the absence of a Division of Labour, not have fallen upon our own shoulders? Why, then, should the farmer bear the whole loss, and we congratulate ourselves that that is his look-out?

Is humanity never to learn the lesson of the Division of Labour? In a Division of Labour we are all members one of another. To the farmer is given the task of supplying our food, and to the miner that of raising our coal, and to the stockbroker that of looking after our

financial interests. How, then, shall we all work for our own hand, without bringing disaster upon our house? Is it not clear that upon a mutual trust and effort depends the well-being of the whole, and that any other principle can only be a working against our own true interest? Such a division, for it is a division, can work after a fashion, and last for a time; but the waste of effort must be prodigious. It is like driving a train with the brakes full on—if that is in any way possible as a feat.

If the true principle of the Division of Labour, the substance of which the Gospel exists to proclaim, wins approval, then we are in a position somewhat to marvel at the beauty and delicacy with which the Surplus is distributed over the whole field of the community by means of the Cost-price Rule. Granted that there is a theoretical inequality of Surpluses, the majority of products in a Division of Labour are joint products. That is to say, goods on the market represent "clubbed" Surpluses, or "clubbed" returns in which Surpluses are implicit. These are of every conceivable order of magnitude within the hypothetical limits. This "clubbed" Surplus, in the case of a single article of merchandise, say, a rasher of bacon, passes in its integrity into the possession of *any* purchaser who cares to purchase it. There is no one posted round the corner to ask, "Have you produced a Surplus in return, and, if so, where is it?" There is no particular track kept, nor any possibility of track being kept, of the Surplus he returns in exchange. It does not even necessarily go to a single one of those men, whose Surpluses together made up the "clubbed" Surplus, which passed in exchange in the rasher of bacon. Think how that complicates the whole matter, and by complicating, demands for the problem a simple solution.

Think of the innumerable subdivisions into which the whole product of labour is divided up at the retail counter, and of the diversity of their destinations. In every working-day, each labourer, in his journeys to and from his work, in the selection of his wardrobe, in the food he consumes at his meals, in his hurried shopping expeditions, in his morning and evening paper, in his evening relaxation at the theatre, draws upon the product of the labour of an innumerable multitude of his fellow-workers. By some freak chance it may happen that from time to time he draws upon the Surplus that his own labour has created.

Is it necessary to say more? The Surplus is leavened out over the whole field of the market, with a delicacy which is not surpassed even in the leavening of our daily bread.

CHAPTER VII

RETROSPECT AND CONCLUSION

It will, perhaps, now be of greatest service to the reader if, by way of conclusion, we help him to recapitulate shortly what we claim to have shown; but, at the same time, in order to make this task as little tedious as possible, we shall give some account of the manner in which the problems first presented themselves to us for solution.

The great strength of our position is to have demonstrated the utter weakness and futility of current economic science, with its reliance upon a "law," which, so far from possessing the force of law, has not even the recommendation or authority of a sound economic precept. We were able to show that the "Profit" System, as responsible for the blight of "unemployment" and "ineffective demand," was a system which, literally, dies from its roots upwards, reducing, in the long run, what appear the flourishing communities of to-day to a dead-level of industrial and commercial, political and moral stagnation.

If it is suggested we have overdrawn the picture, it can only be so in the eyes of such as are content, like Nero, to fiddle while Rome is burning down; or, like Louis XIV, to say that "This will last my time"; and who will never read, even in imagination, the pages of a future Gibbon.

We have gone deeper than any economist with whose

works we are acquainted, both into the simple processes of Consumption and Production, and into the more complicated processes of Exchange and Distribution—though with a greater economy of words. Hardly a single work on economic subjects, which we have read, has properly examined the mechanism of an exchange of goods, whether mediated by money, or conducted by barter. To those anxious to immerse themselves at once into the more difficult speculations, such matters seem too simple to waste time upon. It is a common fault.

We did not find it necessary at the outset to give a definition of Wealth in the economic sense. Axioms can come first, but definitions are more easily intelligible at the end of an inquiry. Sir Sydney Chapman (*Political Economy*, p. 8) gives the definition of "wealth as made up of all things desired by man which can be attained only with the expenditure of human effort." We like this very much, and it is as near a rigorous definition as we have yet met with. Most economists stipulate that Wealth must consist in "exchangeable" goods; but clearly such a definition can be of no use in a Crusoe Economy. Our own definition, in which we place much faith, is that *Wealth is the whole product of human labour*. Man cannot come by anything except it be the product of human labour. If it is wood or coal, he cannot possess himself of it, except by the exertion of human labour. If it be air, there is a reflex muscular effort, which, after running, we often term "laboured." We even speak of childbirth as a kind of "labour." Economic Wealth, whether exchangeable or not, must be the product of human labour. And in this definition must even logically be included what Ruskin called "illth," but which we are content to call Evil; because, to the extent that it is

called into existence, we must presume that it represents desired kinds of the product, or otherwise would not have come to be produced, unless by inadvertence. So that from this we obtain a theory both of Evil and of Error. The "Profit" System, which has grown up and come into existence as a product of human labour, is to many a Good, but to us it is an Evil.

Thus, for the purpose of getting rid of Evil which had crept into the Economic System as the result of inattention to scientific detail, we determined to investigate from the very beginning the Economic Process, as far as we had it in our power to do so. The idea of the Crusoe Economy we obtained from the works of J. A. Hobson; but we also discovered in Cannan's *Wealth* the conception of "isolated man." We saw that the magnet was drawing economists insensibly in the direction of a more basic study; and we undertook this study for ourselves.

Crusoe, we saw, in a Crusoe Economy, is himself Landlord and Capitalist, he does not need to pay "Rent" for the Land, nor "Interest" upon his Capital, nor "Profits" to a middleman or merchant. To this extent we were carried back to a passage in the *Wealth of Nations*, which runs:—

"In that original state of things, which precedes both the appropriation of land and the accumulation of stock, the whole produce of labour belongs to the labourer. He has neither landlord nor master to share with him.

"Had this state continued, the wages of labour would have augmented with all those improvements in its productive powers to which the division of labour gives occasion. All things would gradually have become cheaper. They would have been produced by a smaller quantity of labour; and as the commodities produced by equal quantities of labour would naturally in this state of things be exchanged for one another, they would have been purchased likewise with the produce of a smaller quantity.

. . . . .

"But this original state of things, in which the labourer enjoyed the whole produce of his own labour, could not last beyond the first introduction of the appropriation of land and the accumulation of stock. It was at an end, therefore, long before the most considerable improvements were made in the productive powers of labour, and it would be to no purpose to trace further what might have been its effects upon the recompense or wages of labour."

(Chapter on the Wages of Labour.)

To no purpose? Thus Adam Smith stops short, just when we were becoming interested. He seems to have taken it for granted that this "original state of things" could in no way be perpetuated in the presence of "the appropriation of land and the accumulation of stock." He ceases from his theoretic strain, and continues with the empirical description of the "Profit" System.

It was, nevertheless, no later than in 1814, that David Buchanan, who was then editing the *Wealth of Nations*, made the following commentary upon Adam Smith's supposedly peccant conception of Rent. "It is not from the produce, but from the price at which the produce is sold, that rent is derived; and this price is got not because nature assists in the production (which is what Adam Smith had said—our parenthesis), but because it is the price which suits the consumption to the supply." (L. L. Price's *Short History of Political Economy in England*, p. 75.)

A great many thoughts follow from this pregnant little sentence, which is at least as important as the whole of Ricardo's subsequent doctrine of Rent. Mr. Price,

indeed, records Ricardo as approving this commentary of Buchanan's, but it is difficult to see that Ricardo drew any useful conclusion from it.

If "Rent" comes out of the price at which the produce is sold, it clearly comes out of "Profits"; and "Rent" is essentially of a piece with "Profits," the one being, so to speak, the "Rent" of Land, and the other the "Rent" of Labour. This is really the gist of Adam Smith's thought, which Mr. Price quotes, that "nature labours along with man."

For us the line of thought was naturally, "If no 'Profits,' then no 'Rents,' unless we trench upon the maintenance of the labour, whether of the farmer or of the men he employs." I will not go so far as to say that "Rent" has never been paid from this source; but, in general, where there were no "Profits," it was clear that there would be no "Rents." These lands would *become* "marginal" lands, which yield, theoretically, neither "Profit" nor "Rent."

But there were still other thoughts which followed, notably, as to why the consumption should be suited to the supply, rather than the supply, wherever possible, to the consumption, i.e. to the demand. It seemed to us reasonable, that in a Division of Labour anyone who had laboured, or who was naturally dependent upon a labourer, should have his wants satisfied, if it were at all possible.

It was not our idea of a sound economy, that the demand should be suited to the supply; but that the supply should accommodate itself as much as possible to the demand. Thus, not by raising, but by lowering the prices of goods as much as possible. The reverse process, of suiting consumption to supply, is that of

making man for the sabbath, rather than the sabbath for man. It seemed incredible that any rational human being could fail to seize such a point as this. But the point has been missed, and badly missed. Economists in a body have failed to see it.

It was here that we came upon the distinction between a natural and an artificial scarcity. If the scarcity was natural and absolute, then the cost of the product was still only the maintenance of the labour. There was no necessity why it should be more. But it is clear, that if you are going to allow inverted reasoning in Economics, and lay down that the consumption must suit itself to the supply, then upon a natural scarcity, which nobody can help, there is going to be superadded, at the whim of a landlord or "profiteer," an artificial scarcity, which everybody can help—and, I hope, will help; and the prices of goods are going to be raised, until enormous areas of demand have been rendered "ineffective." And when this has taken place, there is, of course, nothing else to do but to convert superfluous agricultural land into parks, golf-courses, and coverts for pheasant-shooting—not for forestry; and to gallop in mobs over the remainder, after the farmer's vermin, which is preserved by the landlord, trampling down his sown headlands, and making of agriculture, as well as of the food-stuffs of the poor, a joke.

But if, on the other hand, we realize that the proper method of procedure, in any scientific economics, is to suit the supply as much as possible to the demand, then we are going to insist that prices shall not be artificially raised by the mere device of withholding the goods from sale on the market until the uttermost farthing has been extracted from would-be consumers.

If the goods are sold on the market at cost-price, then the best possible is being done for the body of consumers. When this is being done, there is only a natural scarcity, and not a "bogus" scarcity, to set a limit to the satisfaction of demand.

When we have got finally into our heads that PRODUCTION IS FOR THE SATISFACTION OF DEMAND, and need not exceed the demand; that demand does not exist for the excruciating amusement of producers, or for enabling them to line their pockets by an organized system of economic blackmail, however ingenuous this may claim to be; then we must come to the conclusion that "Rent" and "Profit," as ordinarily paid to landlord and middleman, are entirely uneconomic factors, having no legitimate place in theory.

Do we mean, then, to suggest that the factors Rent, Interest and Profit have no meaning or significance at all in Economic Theory? By no means. All that is meant is that in a body of doctrine such as that of the "Profit" System, which is itself entirely untheoretic, and errant in every possible direction, it must be impossible to use terms correctly. It will be noticed that, in a "Profit" System, "Rent" and "Profit" are made to arise mysteriously during a process of exchange. Rent and Profit, in Economic Science, arise during a process of Production, and it must be illegitimate to cause them to arise by means of the manipulation of exchange.

Precisely, therefore, when we come to examine closely into the economics of the Crusoe Economy, we find that terms begin to be used in their proper sense. We find that, what may properly be called "Economic Rent," and what may properly be called "Economic Profit," arise quite legitimately and in the ordinary course, in the

shape, firstly, of superior returns derived from more favourably situated or more productive lands, i.e. those commonly said to possess "differential advantages"; and secondly, of superior returns derived from labour also possessing "differential advantages." They arise in Production and not in Exchange.

What has to be noticed is that Crusoe obtains all these returns, wherever they accrue, strictly at cost-price. He does not have to pay more for them in practice than what he need pay in theory. They arise through a process of production, and not through a manipulation of exchange. And, if there is to be any real meaning in the words "Division of Labour," you have to carry this "cost-price" principle through from the Crusoe Economy to the economy of the Division of Labour. In order to create the impression of a Division of Labour in the Crusoe Economy, one has but to consider Crusoe in his different capacities as husbandman, carpenter, hunter, fisherman, miner, woodman. Crusoe does not starve himself one day, because he is a ploughman, and do himself more generously the next, because he is a landlord. These principles, which are almost absurdly elementary, must be carried through into the Economy of the Division of Labour. I am not out of sympathy with sport, but it is time to see things in their proper perspective; and not to mistake the shadow for the substance. There is more real sport in stock and arable farming than in all the pastimes of a leisure class, which Veblen has so well diagnosed in well-known books.

A Division of Labour must be made to mean something. A man cannot be allowed to sit down on the best agricultural or residential land, and hold the whole community up to ransom. Let him, by all means, keep

his title to his land, so long as his goods come to be sold at cost-price. When that is done, Rent and Profit can only arise in a strictly economic sense, and be distributed equally over the whole field of labour.

It must be evident, now, that what we are dealing with under the terms "economic profit" and "economic rent" are nothing other than constituent elements of the Surplus—that long-lost economists' stone, which was searched for so passionately by Marx. Rent and Profit arise in production, and not through a manipulation of exchange. This being the case, they can have no reference to the mountebank "Rent" and "Profit," which arise through the extortion of middlemen. Where the term Rent is legitimately used, is clearly, in Adam Smith's sense, as signifying nothing beyond superior contributions of land; and Profit, as referring to superior contributions of labour. Where they are illegitimately used is in the sense of superior contributions from some unfortunate consumer. But since in a Crusoe Economy, both Rent and Profit accrue together into the hands of Crusoe, and must do so also in a Division of Labour, they do not seem to be practicably separable from one another. Perhaps the two together make up what may be called economic Interest. But I should not like to say so. All that can be said is what Adam Smith said, that "Nature labours along with man."

The question which most insistently presented itself to our minds was, If Crusoe, being evidently a limiting case of a Division of Labour, obtains his Surplus, made up of "economic Rent" and "economic Profit," always within the limits of the cost-price of his labour, *who* is going to get it in a multiple Division of Labour, if goods habitually change hands on the market at cost-price?

The answer to this question we have presented in great detail in the former part of the book. The Surplus, consisting of the "economic Rent" of land and of the "economic Profit" upon labour, is equally distributed over the whole field of labour with a delicacy which is not even surpassed in the leavening of bread.

The question of money wages was a difficult question, though with the establishment of the principle of the Equality of the Wage, the theory of wages begins to stand out in bold relief. It becomes clear that, in a Money Economy, money can only be drawn into circulation for the express ultimate purpose of paying the wages of labour. That money should be drawn into circulation for the purpose of paying for goods or services of various kinds, is merely another way of saying that it is drawn into circulation for the purpose of paying the wages of labour. Thus the whole of the money drawn into circulation in a Cost-price System is for the purpose of paying the wages of labour. Ultimately speaking, there is no other purpose for which a payment can possibly be made. The whole of the money in circulation is a fund for the payment of wages. There cannot be any other use for money except for the payment of wages. So far from there being a question as to whether there is a "fund set apart for the payment of wages"—and consequently an immature theory of the wages fund—there is no other fund but this. Thus it is not necessary to reopen the controversy as to the Wages Fund, since the controversy is at once closed by the foregoing considerations.

The circulating medium, whatever form it may take, constitutes a fund for the payment of wages. All demands whatever, except those of labour performed, are theoreti-

cally "ineffective," and cannot make themselves heard, unless through the mouth, and by the will, of those who have performed labour. An apparent exception to this rule must be the demands of humanity in cases of the debility of labour through illness or other affliction. It must be short-sighted to limit the consumption of goods for such a cause as this, by cutting off the wages of those who are unable to labour from such a cause; and thus, by two wrongs, to seek to make a right. Consequently, even here there is no real exception, for, though humanitarian provision is made for such labour, what we must look at is the good will of the afflicted towards the Division of Labour, a good will which, were he able, would lead him to exert himself to the uttermost in the interests both of himself and of the community. The reader, who may disagree with this proposition, will find that the adoption of our point of view is the quickest way to a resumption of his own. The unique case, in which we should deny the wage, is that of lack of good will towards the Division of Labour. To deny the wage—in other words, to deny the power of living—to one actuated by sentiments of good will towards the Division of Labour, is merely to create a sense of injustice and to alienate that good will. For example, in the case of the blind, there may be given forth an effort of labour not less than the effort of others outwardly more able. The community must put up with the debilities of its labour, and it rightly does so. This accords with humanity, and does not in any way endanger the rigidity or integrity of economic theory. In the better conditions of the Cost-price System, it is to be expected that congenital deficiencies and debilities of labour, such as those of the deaf and dumb, of

the deformed and imbecile—the "village idiot," and so forth—may gradually be bred out of the social system, or at least be reduced to a negligible minimum. When *all* work, and are able to work with a will, then the reader will be entitled to the resumption of his view. For the moment, though, we think he will find our way the more far-seeing, and the more adapted to the needs of the situation.

If, in a "Profit" System, instead of regarding the magnitude of the wage, we could have seen spread out before us every purchase which the labourer was destined to make by means of his money wage, we should have perceived more clearly what comes to him as the real reward of his labour. What we saw very distinctly was that no one could secure a reward for his labour above the average, unless he was enabled to contrive a scarcity of his labour, or had had a scarcity already contrived for him. All wages, in a Cost-price System, gradually tended to a uniform level. We had to leave out of consideration exceptional cases, some of which we have nevertheless treated of; or arrange for them under disciplinary and other provisions. The state of the reader's mind is, perhaps, least clear upon the point that we seem to have advocated an equal wage for every kind of labour, without having shown that the labour is going to be "worth" it, and without having furnished a reasonable guarantee that the labour will be satisfactory or forthcoming when it has been paid for in advance.

Now, the attitude that a railway porter's labour is not "worth" the same wage as the labour of the managing director of a railway company, is an attitude which belongs entirely to the "Profit" System, and, to put it bluntly, merely signifies that more of the Surplus can

be maldistributed through the agency of the company director than can be maldistributed through the agency of the railway porter. Take the power of maldistribution away from the managing director of a "profit"-seeking concern, and the monetary value of his job will fall like a barometer in a cyclone. The difficulties of his post, for which we suppose him to be properly fitted, are no more onerous to him than the duties of the railway porter, whom we also suppose to be properly fitted for his task, are to him. The attitude taken up by the Cost-price System in regard to questions of this kind is this, that the nearer the wage of the labourer approaches to the average wage of the whole Division of Labour, which average we have taken as being £100, the more nearly is the labourer "worth" his wage. It is not the railway porter, the balance of whose wages in the "Profit" System is made up by casual tips, who is not "worth" his wage; but it is the professional maldistributor of the Surplus, *who is not "worth" his wage*. We have not asked that the railway porter should be paid a few thousand pounds a year.

Turning to the other point, as to the guarantee that the work shall be satisfactorily and duly performed, this must depend in the long run, both in the Division of Labour and, as Dr. Bosanquet intimates, in the State, upon "will and not force"—that is, upon good will; and it seems likely that a greater measure of good will will reign in a system which is just and equitable than in one which is rife with injustice and corruption.

Where all labour with a will, it is likely that all put forth, according to the degree of their strength and ability, an equal effort of labour; and the power and will to do this grows with understanding and with the

feeling of mutual help and dependence. This is the real binding force of the Division of Labour, as it is of the State. And an equal effort of labour is not undeserving of an equal reward. The labourer is worthy of his hire. This is the theory of the Cost-price System.

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The special language of the science of Economics is the King's English, and evidence that it is being rightly employed is easy comprehension on the part of the reader.—*A. J. W. K.*

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